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Location Strategies of Chinese Multinationals

By

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Abstract

The rapid internationalization of Chinese firms has attracted great attention from international business scholars. The different strategies that Chinese MNEs have adopted in the spatial distribution of their economic activities have raised several important questions, i.e. how Chinese multinationals organize their portfolio of locations in foreign markets, and what kind of factors determine the choice of different location portfolio? The main purpose of this study is to investigate the effect of home country environments on location portfolio of Chinese multinationals. This study seeks to elaborate the traditional location theory to combine perspectives from institution-based view and economic geography in examining three dimension of location portfolio: non home-region vs. home-region orientation, developed-country vs. developing-country orientation and OFDI agglomeration at the subnational regions. Using a large sample of Chinese OFDI projects, this study constructs two datasets. One encompasses 28,181 OFDI locations in 139 host countries during 1999-2018 which is used to test the hypothesis regarding non home-region vs home-region orientation, and developed-country vs. developing-country orientation. Another dataset is comprised of 2,728 OFDI projects in 250 subnational regions of 29 foreign countries during 2003-2018, which is used to analyze the effect of OFDI agglomeration.

For the first two dimensions of location portfolio, the findings indicate that both state ownership and sino-foreign joint venture have positive effects on non home-region orientation while both stronger institution in (home) subnational region and institutional instability has negative effects on non home-region orientation. Second, the results show that both state ownership and institutional instability have positive impacts on developed-country orientation, while sino-foreign joint venture has negative effects on developed-country orientation. Furthermore, I also find that a greater degree of

institutional instability in the home country induce Chinese MNEs to break existing location portfolio and choose a new location.

For the OFDI agglomeration, the findings provide strong evidence for both country-of-origin agglomeration and industry-specific agglomeration in OFDI location of Chinese MNEs. The study also finds Chinese MNEs engaged in R&D activities respond more actively to industry-specific agglomeration while Chinese MNEs engaged in production activities are less motivated by industry-specific agglomeration. The results also indicate that Chinese MNEs engaged in R&D, production and supporting service are less motivated by country-of-origin agglomeration while Chinese MNEs undertaken marketing and sales activities are more likely to cluster in country-of-origin agglomeration. Further, the result indicates Chinese state-owned enterprises are less motivated to cluster in country-of-origin agglomeration. I also find that there is a positive relationship between the high degree of industry agglomeration in the home country and the probability of Chinese multinational locating in industry-specific agglomeration in the host country.

Keywords:

Chinese MNEs; location portfolio; home institutions; OFDI agglomeration;
sino-foreign joint venture

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Abbreviations

BRI	Belt and Road Initiative
CSA	Country-Specific Advantage
CSMAR	China Stock Market & Accounting Research Database
EMNE	Emerging Market Multinational Enterprise
EU	European Union
FDI	Foreign Direct Investment
FSA	Firm-Specific Advantage
IB	International Business
IIA	Independence of Irrelevant Alternatives
IMF	International Monetary Fund
IV	Inclusive Value
JV	Joint Venture
LLL	Linkage-Leverage-Learning
M&A	Merger and Acquisition
MNE	Multinational Enterprise
MOFCOM	Ministry of Commerce
MOFTEC	Ministry of Foreign Trade and Economic Cooperation
NAICS	North American Industry Classification System
NBS	National Bureau of Statistics
NEG	New Economic Geography
NERI	National Economic Research Institute
OEM	Original Equipment Manufacturer
OFDI	Outward Foreign Direct Investment
OLI	Ownership, Location & Internalization
OLS	Ordinary Least Squares
R&D	Research and Development
SEZ	Special Economic Zone
SIC	Standard Industrial Classification
SME	Small and Medium Enterprise
SOE	State Owned Enterprise
UNCTAD	United Nations Conference on Trade and Development
VIF	Variance Inflation Factors
WGI	World Governance Indicators

Chapter 1 Introduction

1.1 Research Background and Motivations

Under the background of economic transition, especially driven by the ‘Going global’ and ‘Belt and Road Initiative’ policies, an increasing number of Chinese companies has been actively engaged in expanding their footprints in overseas markets (Li, Liu, & Qian, 2019; Wong & Chan, 2003). Chinese outward foreign direct investment (OFDI) has grown by nearly 80 folds from US\$ 1.77 billion in 1999 to US\$ 143.04 billion in 2018 (MOFCOM, 2019). The cumulative net stock of Chinese OFDI reached over US\$ 1982.27 billion in 2018 (MOFCOM, 2019). Unsurprisingly, the rapid internationalization of Chinese firms has attracted great interest from researchers in the field of IB, organization and strategic management (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Child & Rodrigues, 2005; davidDeng, 2012; Luo & Wang, 2012; Mathews, 2006). However, it has been observed by scholars that Chinese firms that have been driven by different investment motivations tend to adopt a different strategy in undertaking outward investments in terms of foreign market location, entry mode and so on (Dunning, 1980; Dunning & Lundan, 2008). For example, some Chinese firms such as Haier and Geely targeted advanced economy during their primary stage, and their focus has been on entering developed regions (Child & Rodrigues, 2005; Duysters, Jacob, Lemmens, & Jintian, 2009). On the contrary, other firms such as Huawei avoided developed country markets and first went to developing countries that have weak infrastructure networks, e.g. Malaysia, Russia, Indonesia (Sun, 2009). Chinese MNEs not only target different markets at their initial stage of internationalization, but also display different location portfolio considering whole set of subsidiaries location of each MNE in all countries. While some Chinese firms (e.g. Huawei, Lenovo and Xiaomi) have global dispersion, other firms concentrate most of

their operations in the Asian regions (Rashidin, Javed, Chen, & Jian, 2020). Thus, the question arises concerning what factors determine the choice of a more globally oriented strategy of Chinese MNEs as opposed to a more regionally oriented one as argued by Rugman and Li (2007). Will they display different strategic behaviors in response to the home government changing policy? And whether state-owned Chinese firms exhibit different location strategies compared to private firms in overseas market? These are some of the critical questions that are being proposed by both academics and practitioners. The answers to these questions are of great importance to Chinese firms that seek to increase their competitiveness in the global market (Dunning, 1998; Shenkar, 2009) .

The importance of the location choice in OFDI strategic decision has been well documented (Dunning, 1980). In IB and strategic management field, there has witnessed the revival of research towards the spatial dimension of MNE activities following the influential article by Dunning (1998) (Cantwell, 2009; Dunning, 2009; Kim & Aguilera, 2016). ‘Where and why firms place specific activities in particular (geographic) areas’ (Goerzen, Asmussen, & Nielsen, 2013) has always been one of the most important strategies for MNEs (Kim & Aguilera, 2016). MNEs expand abroad to increase values for firms, such as to seek large markets, economies of scale, natural resources or strategic assets (Dunning & Lundan, 2008). OFDI location in essence is the strategy associated with how MNEs organize their portfolio of locations to maximize economic returns, as portfolio of location-specific assets can be a source of MNE’s competitive advantage (Cantwell, 2009; Dunning, 1998; McCann & Mudambi, 2004; Piscitello, 2011). Thus, the best choice of location-advantages can help enhance the capability of developing and obtaining ownership advantages of MNEs (Piscitello, 2011). This is particularly important for Chinese MNEs because most of them

undertake outward investment in foreign locations not to exploit current advantages, but to acquire or augment strategic assets (Luo & Tung, 2007; Mathews, 2006). Given the relative weak capabilities and limited resources, Chinese MNEs tend to rely on locational advantages in host country and enhance their competitive advantage through optimum portfolios of OFDI location and thus increase their global competitive position. Therefore, the location strategy¹ is undoubtedly of central importance in current theoretical discussion of Chinese MNEs' OFDI strategies (Kedia, Gaffney, & Clampit, 2012).

Traditional economic theory (Dunning, 1980; Vernon, 1966) and organizational behavior approach (Johanson & Vahlne, 1977; Levitt & March, 1988) are the two traditional theories in explaining location strategy of MNEs. Economic-based location theory postulated that the choice of a specific location is based on a rational process of decision-making by comparing the costs and benefits among different places. MNEs choose to invest in a specific location because of the maximum economic return or potential growth opportunities. Organizational behavior (learning) approach emphasizes the gradual learning that happens as firms internationalize, which then increases firms knowledge for future internationalization (Johanson & Vahlne, 1977). OFDI location is viewed as a sequence that builds on previous foreign experience and associated organizational learning. However, these traditional location theories are mainly developed based on the observation of advanced country firms and may find it difficult to explain distinctive behaviors of Chinese MNEs. For example, why do some Chinese MNEs conduct overseas investment aggressively to acquire strategic assets embedded in advanced economies? Although with the emergence of emerging market MNEs the institution-based view has been increasingly used to explain location

¹ Location strategy in this study includes location portfolio and location choice.

strategies of MNEs in recent years (Peng, 2012; Peng, Wang, & Jiang, 2008), most of the extant studies examine location strategy of Chinese MNEs employing transaction cost, institutional theory or organization learning perspective, thus cannot capture the characteristic of Chinese MNEs location in a dynamic and comprehensive way. Scholars have called for the combination of IB theory and economic geography into the research of MNEs location (Beugelsdijk, McCann, & Mudambi, 2010; Beugelsdijk & Mudambi, 2013; Buckley & Ghauri, 2004).

1.2 Research Gap

The location strategy of Chinese MNEs has been studied by different theoretical and methodology approaches leading to inconsistent results. Extant studies have investigated the effect of host country factors (e.g. market size, resource endowment, political risk) (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Duanmu, 2012; Kang & Jiang, 2012), investing motivation (Kolstad & Wiig, 2012; Ramasamy, Yeung, & Laforet, 2012), international experience of the firm (Lu, Liu, Wright, & Filatotchev, 2014; Yuan & Pangarkar, 2010), and inter-country distance (Quer, Claver, & Rienda, 2012; Quer, Rienda, Andreu, & Miao, 2019). However, the following aspects have been found to be largely neglected or only occasionally addressed in extant research.

First, most of the empirical studies only focus on ‘each choice’ without reference to previous locations (Enright, 2009; Henisz & Delios, 2001). Most of extant studies treat foreign market entry as a series of discrete location decisions where each location choice is assumed to be independent (Li, Guo, & Xu, 2017; Nachum & Song, 2011). The effect of the total set of previous investment locations of each MNE in all countries is ignored (Keig, Brouthers, & Marshall, 2019). From the perspective of strategic decision-making, all the subsidiaries in overseas markets comprises the unique investment portfolio or investment networks for each MNE, with each subsidiary as

network nodes are interconnected and interdependent (Johanson, 1982; Nachum & Song, 2011; Rugman, 1979). MNEs is a portfolio of investment locations, and without considering portfolio linkages will lead to underestimating the interdependence of location choice (Asmussen, Nielsen, Osegowitsch, & Sammartino, 2015; Keig, Brouthers, & Marshall, 2019).

Second, the influence of home country institutions on Chinese MNEs location strategy has received scant attention. It is highly important in the case of Chinese MNEs as they are operating in an unstable institutional environments, with state-owned enterprises, and their home countries are currently undergoing a transition towards market-based economies (Gaur, Ma, & Ding, 2018; Yang & Huang, 2018). This unstable institutional environment may have two opposite effects on location strategy of Chinese firms. On the one hand, it may encourage Chinese firms to escape their home countries and invest in developed markets in search of more stable institutions (Witt & Lewin, 2007). On the other hand, it may also induce them to invest in other countries with unstable institutions as they are already familiar with operating in such environment (Cuervo-Cazurra, Luo, Ramamurti, & Ang, 2018; Estrin, Meyer, & Pelletier, 2018).

Third, most research on OFDI location has been carried out at the country level. Actually, Ofdi location exhibits a hierarchical decision structure, in which subnational regional location following with the selection of a specific host country (Mataloni, 2011; Iammarino & McCann, 2013). When location strategy by MNEs is only analyzed at country level, subnational diversity and contextual differentiation of the specific locality will not be unveiled (McDonald, Buckley, Voss, Cross, & Chen, 2018). This is a important research issue, especially in the context of agglomeration/clustering that display significant heterogeneity of agglomeration economies across different

subnational (region) or within country (Lamin & Livanis, 2013; Ma, Tong, & Fitza, 2013). According to regional economics (Porter, 1994; Enright, 1992), the competitive advantages resulting from performance of agglomeration/clustering emerge at the sub-national level rather than at the national one (Enright, 1992). On one hand, idiosyncratic features such as historical events, unique physical locations, or natural endowments (Krugman, 1991; Porter, 1998) that offer favourable geographical conditions for cluster emergence varies greatly across regions. On the other hand, localised knowledge pool that is recognized as an important 'ex-ante cluster support' (Asheim & Coenen, 2005) are deeply contextualized in local region's communications and interactions (Li, 2018). Thus, sub-national level of analysis can confer a significantly closer approximation of clustering/agglomeration distribution within host country (Buegeldijk & Mudambi, 2013; Iammarino & McCann, 2013). This is significant for my study as it connects with one of my research purposes to investigate the foreign agglomeration/clustering strategy by Chinese firms which is better studied and captured at subnational level of analysis.

Fourth, there is paucity of research, with few exceptions (Karreman et al., 2017), on OFDI agglomeration of Chinese MNEs. OFDI agglomeration is one of the most important dimensions in the MNE location research (Beugelsdijk & Mudambi, 2013). Although some studies (Yuan & Pangarkar, 2010) investigate the effect of imitation or follow-up behaviour in MNEs location, a large body of empirical research is only based on the country level of analysis rather than the subnational level.

1.3 Research Purpose & Research Questions

The study aims to achieve following major objectives. First, it intends to explore the existing location portfolio of Chinese MNEs as well as its impact on subsequent location entry of Chinese firms. The study investigates location portfolio from three

aspects, home region vs. non-home region orientation²; developed country vs. developing country orientation; and OFDI agglomeration at the subnational regional level. The first two dimensions will be analyzed in Chapter 4, and the third aspect will be examined in Chapter 5. Second, it intends to explore the influence of home country institutions on home-regional vs. non home-regional orientation of Chinese firms, and developing-country vs. developed-country orientation. The study is expected to provide a holistic analytical framework on how home country institution affects location portfolio of Chinese MNEs, which will be investigated from state ownership, (home) subnational institutional heterogeneity and institutional change. Third, this study aims at exploring how sino-foreign joint ventures impact location portfolio of Chinese MNEs. Fourth, it examines the impact of two kinds of agglomeration (country-of-origin and industry-specific) on OFDI location entry of Chinese MNEs. It aims to provide an answer to two specific questions: ‘will Chinese MNEs co-locate with their home country peers in foreign subnational regions’, and ‘will Chinese MNEs co-locate with other firms in the same industry in foreign subnational regions’.

1.4 Structure of the Thesis

The rest of this dissertation is organized as follows:

- The Chapter 2 provides a literature review on existing location theory from multiple fields. This chapter also focuses on the related descriptive and empirical studies on location strategy of Chinese MNEs.
- The Chapter 3 proposes a conceptual framework for the study.

² The ‘region’ here refers to supra-national region which is different from the term ‘region’ in ‘subnational region’ that is mainly discussed in Chapter 4

- The Chapter 4 explores the effect of home country institutions and sino-foreign joint ventures on location portfolio of Chinese MNEs. This chapter also examines the impact of institutional instability on the new market entry.
- The Chapter 5 examines the influence of country-of-origin and industry-specific agglomeration on location choice of Chinese multinationals in (host) subnational regions.
- The Chapter 6 summaries the major findings of this thesis, identifies theoretical and empirical contribution to extant studies, and a discussion of the limitation and possible future research.

Chapter 2 Literature Review

2.1 Traditional Theory of MNEs and FDI Location

Location theory in Economic Geography

Location theory is the study of the geographic location of economic activities, addressing questions of what economic activities are located where and why. Neo classical location theory and new economic geography theory are mainly based on the principle of maximization and equilibrium (Barnes, 2003). Firms seek the optimal location in which they can maximize their economic profits. Therefore, the location decision of a firm is the result of comparing the costs and benefits of different places. Equilibrium is a state in which different kinds of location forces balance each other and this state will not change without external influences (Harris, 2005).

The generally accepted founding father of the industrial location theory was Alfred Weber (1929). Weber attempted to clarify a given situation by constructing a simple analytical framework that involved locating a production plant that needed two raw materials and one market (Eiselt & Marianov, 2019). The central issue in his model is to determine where to locate one or more facilities and how transportation costs influence the distribution of plants. His objective is to locate the production plant at a best place where the total transportation costs of raw materials being shipped to the production plant and the distribution of product to various markets from the production plant would be minimized (Church, 2019). According to Weber's model, industries will be attracted to those locations which have the lowest costs of transportation including transport of raw materials that are needed in the manufacturing as well as transport of products to various markets.

Weber was concerned with analyzing the 'factors of location which are applicable to a greater or lesser degree in every industry' (Weber, 1929). These factors can be

broadly classified into two groups: general regional factors, such as transportation costs and labor costs, and specific regional factors or forces of agglomeration which determine the redistribution of industry.

However, Weber's least cost location theory was almost disregarded by Losch (1954). Instead, Losch proposed a 'profit maximization' approach, in which industry would locate in areas where maximum profits occur (Losch, 1954; Mulligan, 1984). To get the maximum profit, as stated by Losch, total consumption is important. While Weber ignored the demand factor, Losch's theory considered demand as the most important variable. The fundamental objective behind the theory was to find out the most profitable location for industrial establishment. According to Losch (1954)'s model, the product's net price is the sum of the price charged by the store/plant and the travel costs incurred by consumers. Each customer is assumed to have a downward-sloping demand curve for product. The reduction in travel costs could decrease the net price of goods, thus increasing demand per capita. The increase in demand tends to reduce the firm's market area because the firm only needs a smaller marketing area to sell a given quantity of output. The market area of the firm is defined as the territory required for the firm to sell its target quantity (Parr, 1973).

Isard (1956), who founded the field of regional science, extended and modified the Loschian model by incorporating the spatial econometrics method, such as the input-output analysis, in an attempt to make it more reasonable. He proposed that industrial location needed to be analyzed under the spatial economy framework (Isard, 1956; Leven, 1957). Isard (1956) classified the location factors differently from previous studies. He suggested that location factors should be divided into three groups according to the nature of their geographical characteristics. The first group included transport costs and other transfer charges. The second group comprised the costs

associated with labor, power, water, and taxes. The third group comprised the forces of agglomeration and deglomeration economies.

However, both classical and neo classical location theory are based on the assumption of perfect competition and constant returns to scale, while taking the economics of scope and agglomeration economies as an exogenous factor in industrial location (Ottaviano, 2011). In contrast, new economic geography (NEG) theory provides a new theoretical explanation on the geographic concentration of firms through agglomeration economies under a general equilibrium framework with increasing returns (Fujita & Thisse, 1996; Krugman, 1991; Stiglitz, 1977). The mechanics of the NEG model is based on a number of fundamental elements that provide a plausible theorization of why self-reinforcing centripetal forces pull economic activity towards a few places (Martin, 1999; Ottaviano, 2011). In particular, increasing returns, monopolistic competition, transaction costs and external economies collectively underlie the general functioning of the NEG model and thus shape the spatial behavior of economic activities.

As stated by Krugman (1991), the equilibrium of industrial location partially relies on the initial conditions of a particular place, and industrial agglomeration has the trait of historical and path dependence. In other words, once an initial regional advantage is established, it may become cumulative. The comparative advantages in one place over another by historical chance may attract more firms to invest there, which causes a mechanism of circular causation. Through this mechanism, a growing concentration of industries will emerge and continue. Moreover, Krugman's (1991) model demonstrates the interaction between scale economies and firms' location. The existence of economies of scale, and especially external economies which is one of the benefits from geographic concentration, will further attract new firms to cluster together. Meanwhile,

his model suggests that high transport costs will deter the geographical concentration of production facilities (Ottaviano, 2011). With the reduction in transport costs, firms will tend to concentrate in one site to realize economies of scale.

Much of the literature in new economic geography has identified different factors that lead to the geographic concentration of industries: knowledge spillover, forward-backward linkage and specialized input and service (Head, Ries, & Swenson, 1999; Marshall, 1920; Venables, 1996; Wheeler & Mody, 1992). Krugman and Venables (1995) introduce vertically linked industries with input-output structures in their models, and argue that there are forward and backward linkages that tend to concentrate the upstream and downstream firms in a particular place (Fujita, 2010; Krugman & Venables, 1996). The empirical result of Amiti and Javorcik (2008) indicates that foreign firms choose to locate in the regions where they can easily supply intermediate goods to others or purchase intermediate goods from other firms. Head, Ries and Swenson (1995) examine the location of Japanese investments across the US using the conditional logit model, and argue that a location theory based on agglomeration-externalities explains the Japanese firms' behavior better than the traditional location theory based on inter-state endowment differences. This argument is also supported by Head and Ries (1996) in which the positive relationship between the location choice and clustering of intermediate suppliers is identified.

Product life cycle theory

Vernon (1966, 1972) was the pioneer in the attempt to explain the dynamic location pattern of international production (Piscitello, 2011; Vernon, 1972; Vernon, 1966). According to his theoretical model, the location of production depends on the product life cycle that is comprised of several stages from development, growth, maturity and decline (Vernon, 1966). In particular, innovative products are more likely to be

developed in a developed country where abundant R&D resources and sophisticated technologies are well available, and then exported to other developed countries with similar levels of economic development to increase sales (Audretsch, Sanders, & Zhang, 2017). When the technology for production has become relatively stable and market demand in other advanced countries has become established, the focal firm may find it more profitable to set up production plants locally in each developed country instead of importing from the innovating country. The product and production technology eventually spread to less developed countries and then to developing countries, which results in the market expansion along with intensified competition among homogenous products. At this stage, demand is likely to become much less price inelastic and cost reduction is viewed as a critical factor in determining sales profit. As a result, firms will tend to move their production facilities through FDI to low-income developing countries in order to exploit the lower cost of production there.

Although Vernon's research provides an insightful explanation to understand the dynamic change in FDI location pattern, the relevant supporting study is rare. Moreover, with a rapidly changing international business environment, the product cycle theory has been criticized as less useful to explain outward investment activities by existing MNEs with globally integrated networks (Vernon, 1979). For example, because of the growth of vertical specialization in the international production, many companies choose to launch new products in multiple markets. In addition, the international production in Vernon's model is only treated as a one-way process, which is from developed countries to less developed ones. These analyses may therefore be inadequate when it comes to analyzing outward investments from developing countries to developed ones (Gammeltoft, Pradhan, & Goldstein, 2010; Li, 2007). For example, because of dysfunctional innovation environments in domestic markets, emerging

market firms may choose to transfer their innovation centers to advanced markets in order to take advantage of favorable technological innovation institutions there.

Incremental internationalization theory

The internationalization process theory (Johanson & Vahlne, 1977; Johanson & Vahlne, 2009; Johanson & Vahlne, 1990) indicates that MNEs take a cautious and incremental manner in their foreign expansion. The central point of this model is concerned with an interaction between the development of knowledge about the foreign markets and its effect on international strategy (Forsgren, 2002; Johanson & Vahlne, 1990). Due to lack of knowledge and resources, multinational firms will begin by expanding into a neighboring country with a low resource commitment mode. As the knowledge of the international market grows, the firms will gradually increase their resource commitment to foreign markets and further expand their geographical scope to more distant countries (Johanson & Vahlne, 1977).

Meanwhile, this stage model provides a powerful insight on two major issues in the process of internationalization: the mode of foreign market entry (e.g. exporting via an agent or establishing a local production plant), and the sequence of location selection. Psychic distance, which is defined as ‘the sum of [...] differences in language, education, business practices, culture and industrial development’ (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975) between home and host countries, indeed creates some obstacles to knowledge transfer. And the greater psychic distance leads to higher risks and transaction costs in host countries. Therefore, MNEs often start outward investment by entering neighboring countries that are culturally similar, or geographically close to their home country, and then gradually move into those markets at successively greater distance (Arenius, 2005; Johanson & Wiedersheim-Paul, 1975). The best way to reduce the perceived risk and uncertainty caused by psychic distance,

as stated in the Uppsala model, relies on the experiential learning that is accumulated from prior experiences of firms (Johanson & Vahlne, 1990). However, other potential learning mechanism is largely neglected in the stage model (Forsgren, 2002). As the model is developed and extended by later scholars (Chetty & Campbell-Hunt, 2004; Forsgren, 2002; Johanson & Vahlne, 2006; Johanson & Vahlne, 1990), the importance of the learning process in explaining the evolution of MNEs is increasingly recognized (Meyer & Thaijongrak, 2013).

Johanson and Vahlne (2009) developed their original stage model by incorporating the business network theory. According to their updated model, the international business environment is considered as a network of interrelated relationships (Rugman, Oh, & Lim, 2012). Organization can accumulate knowledge through being embedded in a strong network, and interacting with other network members as indicated in Johanson and Vahlne (2006) 'learning is more [concerned] about discovering and constructing opportunities [...] involving other firms in the network'. Thus, by becoming insiders to relevant business networks, firms may acquire more knowledge about foreign markets and reduce uncertainty in their search for an international location (Johanson & Vahlne, 2009).

In addition, the rapid growth of emerging market MNEs (EMNEs) has presented great challenges to the validity of the internationalization process model in describing the location pattern of EMNEs (Luo & Tung, 2007). It is argued that emerging market firms have various means to skip stages or to follow an entirely different sequence of international expansion (Meyer & Thaijongrak, 2013). EMNEs may take a non-incremental approach and select OFDI destinations that are psychically distant from their home country for their first overseas expansion (Luo & Tung, 2007). For instance, Chinese electronics manufacturer TCL made its first major OFDI in Germany and

China's largest home appliance maker Haier established a foothold in Europe and the US in its early stage of international expansion. Nonetheless, this stage model still receives support in empirical researches and enjoys considerable attentions in the international business arena.

OLI paradigm

The location strategy of MNEs could also be analyzed through OLI framework or the eclectic paradigm proposed by Dunning (1977), which has provided a comprehensive framework for explaining the extent and pattern of the foreign value-added activities (McCann & Mudambi, 2004). The basic argument of this framework is that firms will undertake overseas direct investments if they possess three sets of competitive advantages: ownership, internalization and location advantages. Ownership advantages emanate from the superior resources or capabilities that are specific to the firms relative to their competitors. Internalization advantages refer to the ability to internalize product and labor markets within MNEs in order to reduce transaction costs caused by imperfect external markets (Buckley & Casson, 1976). In addition, location advantages are associated with those favorable location conditions such as the existence of a large market size, abundant resources, or favorable government policy in a particular market. Instead of treating the three lens of eclectic paradigm separately, Dunning (1980, 1993, 2000) emphasizes that it is in conjunction with ownership and internalization advantages that will make a particular location more appealing to MNEs.

Location advantage, which is a critical element introduced by Dunning (1977,1980), focuses on the relative attractiveness of a host country to potential investors (Galan, Gonzalez-Benito, & Zuñiga-Vincente, 2007; Na & Lightfoot, 2006). The attractiveness of a country for international investments is directly determined by its market potential,

resource endowment and low costs for production input (Dunning, 1993). For instance, MNEs tend to enter those countries with advanced technological assets, abundant natural resources, and efficient industrial infrastructure. Conversely, a high level of operational risks in host countries may deter MNEs' entry. If target locations are characterized by changing government policies and a high level of political instability, MNEs will struggle to survive and take the risk of loss in their investment.

In addition, Dunning (1998) indicates four main types of motivations including market-seeking, resource-seeking, efficiency-seeking and strategic asset-seeking that promote firms to engage in FDI. Firms that are market-seeking oriented tend to go overseas to gain access to new markets or opportunities. Resource seeking firms aim to acquire particular resources that are not available at home or only available at a higher cost (Franco, Rentocchini, & Marzetti, 2008). Efficiency seeking is expected to improve overall production efficiency by exploiting the economies of scale in the host country. Finally, asset-seeking FDI is to explore strategic assets that might be complementary to existing ones with the purpose to strengthen the competitiveness of MNEs. Dunning's typology of FDI motives has been extensively used, and many empirical studies have found evidence to support the existence of FDI motivations (Chen & Yeh, 2012; Kang & Jiang, 2012; Na & Lightfoot, 2006). On the basis of FDI motivations, Dunning (1988) argues that several major types of location-specific factors are particularly important in the context of international production: markets, resources, production costs, political conditions and cultural/linguistic affinities (Li, Zhang, Yu, & Liu, 2010).

Dunning's framework gives us a fundamental analytical framework about the determinants of FDI activities. However, this framework was developed based on the analysis of the internationalization in the 1950s and 1960s of developed country firms,

in which ownership advantage is regarded as the prerequisite for outward investment (Hennart, 2012; Li, 2007). Such advantage mainly refers to cutting-edge technology, innovative designs, well-known brands, et al (Bhaumik, Driffield, & Zhou, 2016; Cuervo - Cazorra, 2012). However, as observed by many scholars, EMNEs seem not to possess these knowledge-based ownership advantages including proprietary technologies and managerial capabilities (Mathews, 2006; Peng, 2012; Rugman, 2010). Cuervo-Cazorra (2012) points out that on one hand, EMNEs 'are more likely to move abroad not only to exploit O advantages developed in the home country, but also to reduce O disadvantages'; on the other hand, EMNEs 'may invest abroad to escape L disadvantages at home in the form of poor institutions or regulation'. Scholars also acknowledge the difficulty of the OLI framework in explaining EMNEs' outward investment activities, especially their strategic-seeking investments in developed countries (Cardoza & Fornes, 2011; Hennart, 2012; Ramasamy, Yeung, & Laforet, 2012). They extend the framework by arguing that EMNEs can leverage the advantages of their home countries to obtain firm-specific advantages (FSAs) in developed countries to offset their latecomer position instead of exploiting existing kind of firm-specific advantages possessed by developed country MNEs.

2.2 Emerging Market MNEs FDI: Challenge the Traditional Theoretical Framework

The conventional OFDI theoretical framework, both in monopolistic advantage theory and in internationalization process model, is mainly applied to analyse strategies of MNEs from advanced economies. As indicated by monopolistic advantage theory (Dunning, 1980; Hymer, 1960), Chinese multinationals were less likely to have the incentives to expand into developed countries and move up in the global value-added chain. Chinese MNEs, compared with Western competitors, do not have traditional

ownership advantages in terms of technological developments, and managerial and marketing capabilities (Ramamurti, 2012; Ramamurti & Singh, 2009). However, plenty of anecdotal evidence and statistical evidence show that China's OFDI to developed countries has increased substantially over the last two decades and is gradually moving toward the upper end of the global value-added chain (Luo & Tung, 2007). Moreover, the development path and geographic distribution of Chinese multinationals is inconsistent with the received view of incremental logic as predicted by the Uppsala stages model (Johanson & Vahlne, 1977). According to the Official statistics from MOFCOM, in the early-stage internationalization, the dominant share of China's OFDI flowed to developed countries, such as the US, Canada and Australia, which is culturally and geographically distant from China. Even among the developing countries and areas, those offshore financial center (e.g. British Virgin Islands, Cayman Islands) in Latin America and the Caribbean that is physically distant from China rank among the most important destinations. In comparison, countries in South, East Asian regions that have cultural and geographical proximity receive relatively small investments from Chinese multinationals, with the exception of the Hong Kong and Singapore (Buckley, Cross, Tan, Xin, & Voss, 2008; Wong & Chan, 2003; Wu & Chen, 2001).

It is obvious that the emergence and rapid increase of EMNEs has posed an unprecedented challenge on the applicability of classical OFDI theories. Recent years have witnessed a heated-debate in the IB research arena concerning whether conventional theories are sufficient to explain the outward investment activities by emerging market firms or whether a new theoretical approach is needed (Cuervo-Cazurra, 2016; Cuervo - Cazurra, 2012; Guillén & García-Canal, 2009; Jormanainen & Koveshnikov, 2012; Luo & Tung, 2007; Mathews, 2006; Ramamurti, 2012).

Some scholars insist that EMNEs and developed country MNEs share some common characteristics in some aspects, yet the difference between them does not suffice to justify developing a separate approach for emerging market firms (Dunning, 2006; Dunning, Kim, & Park, 2008; Narula, 2012; Narula, 2006; Rugman, 2010). Rugman (2010) argues that ‘existing international business theory fully explains the nature and positioning of emerging market MNEs’. The CSA/FSA framework, for example, is one of the model he suggests (Rugman, 2006; Rugman, 1981). Although EMNEs do not have traditional FSAs as their developed country counterparts, they are better able to exploit country-specific advantages that are embedded in their home countries based on cheap labours, natural resources, and cheap money (Rugman,2010; Dunning, 2006). In the same vein, Dunning (2006) also claims that EMNEs that are engaged in asset seeking investments in developed countries already possess some ownership advantages, thus an extension of the existing theoretical framework is adequate to capture the behavioural characteristics of EMNEs. Dunning (1995, 2002) broadens the ownership advantage to incorporate O advantages generated through strategic alliance with other firms. EMNEs have been proven to make good use of strategic linkages with foreign partners in their home country in order to accelerate internationalization (Dunning, 1995; Dunning, 2002). Furthermore, based on the work of North (1990), Dunning and Lundan (2008) bring ‘institutional ownership advantages’ into OLI paradigm (Dunning & Lundan, 2008). Despite their lack of advanced technological and managerial capabilities, emerging market firms can compete effectively against global rivals in other developing countries with their managerial expertise in dealing with poor institutional environments (Cuervo-Cazurra & Genc, 2008).

From the opposite point of view, some scholars such as Ramamurti (2012), Luo and Tung (2007), and Mathews (2006) contend that mainstream OFDI theories that emerge from investigations of advanced countries MNEs cannot fully account for the distinctive behaviour of EMNEs. For example, why do some EMNEs behave in such an aggressive manner in the process of internationalization, and why are they prone to choose more risky locations in foreign markets? Therefore, there is a need to develop a new theory or perspective to explain the phenomenon of emerging market multinationals' strategy. Contributions to this view include the proposition of the linkage-leverage-learning (LLL) (Mathews, 2017; Mathews, 2006) and springboard perspectives (Luo & Tung, 2018; Luo & Tung, 2007). Luo and Tung (2007, 2018) introduce a springboard perspective to describe the motivation behind the international expansion of EMNEs, highlight the unique nature of EMNEs, and the key challenges that EMNEs face in the internationalization. They suggest that EMNEs take advantage of internationalization as a springboard to acquire strategic assets in advanced economies in order to reduce their market constraints in home country, thus compensating for their latecomer disadvantages. Mathews (2006, 2017) proposes an LLL model in his influential article titled 'Dragon Multinational'. He suggests that EMNEs as latecomer firms could acquire competitive advantages for internationalization through linking up with established Western MNEs, using such outward linkages to obtain external resources and establishing an organizational process of learning by repeated linkage and leverage (Lu, Ma, Taksa, & Wang, 2017). The LLL model not only emphasizes the recursive process of resource linkage, leverage and learning, but also focuses on the application of capabilities that firms build up in each stage of three pillars (Hung & Tseng, 2017). Specifically, linkage capability is defined as the extent to which firms are embedded in the local networks of a host

country through various forms of collaborative partnerships. Leveraging capability refers to EMNEs' capability that developed through transnational operations in different countries, while the learning capability refers to the degree to which a firm accumulates knowledge through prior foreign entries, and develops competences that facilitate the running of existing operations and establishing a new one (Li, Guo, & Xu, 2017; Peng, 2012). Moreover, Mathews (2006, 2017) identifies the differences between the LLL model and the OLI model. The OLI framework takes ownership advantage as a starting point for analysis and emphasizes the optimal use of MNEs existing resources in international expansion; while from the LLL perspective, the starting point for EMNEs' international expansion is the resources they access externally, thus it is important for EMNEs to build up linkages with external organizations.

In addition to these two streams of research, a growing number of studies attributes distinctive strategies of EMNEs to the contextual environment that they are embedded in (Cuervo - Cazorra, 2012; Meyer & Peng, 2016; Peng, 2012; Peng, 2002; Peng, Wang, & Jiang, 2008; Ramamurti, 2009; Ramamurti & Singh, 2009). Ramamurti (2009) indicates that one of the important reasons for studying EMNEs is to 'bring context more explicitly and comprehensively into IB theory'. Buckley et al. (2007) and Peng (2012) provide detailed evidence about the idiosyncratic characteristics of China's institutional environments and find the strong support for the argument that institutional factors help to explain the unique behaviour of Chinese MNEs. Although organizations are affected by the 'rules of the game' both at home and abroad, the home country governments play an even more significant role in EMNEs (Cui & Jiang, 2010; Luo, Xue, & Han, 2010; Peng, Wang, & Jiang, 2008). For example, the Chinese government has launched a series of policies such as low-interest financing, currency manipulation, reduced taxation, and subsidized insurance to encourage Chinese firms going abroad

(Luo, Xue, & Han, 2010; Peng, 2012). On the other hand, Chinese governments also play a negative role behind China' OFDI (Cui & Jiang, 2010). The motivation for some Chinese firms to invest abroad is pushed by imperfection in domestic capital market such as an inefficient banking system and soft budget constraints (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007). Many firms especially non-state-owned ones often feel institutional discrimination by Chinese government and face unfair competition in domestic markets in which they cannot enjoy preferential policies as foreign-invested enterprises do (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007). This results in burgeoning round-tripping investments in which Chinese MNEs undertake outward investment in Caribbean tax havens to help mask themselves as 'foreign domiciled' companies, and then return to the mainland with a foreign identity for preferential tax policies (Deng, Yan, & Sun, 2019; Peng, 2012).

The above has covered the home-country context, industry context, and macro international context. The next section will cover an institutional perspective as this is advocated by a number of authors as a fruitful approach to study EMNEs (Cuervo - Cazurra, 2012).

2.3 Study EMNEs from Institution-based View

The institution-based view of the business strategy (Peng, 2002; Peng, Sun, Pinkham, & Chen, 2009; Peng, Wang, & Jiang, 2008) emphasizes the dynamic interactions between institutions and organizations and views the organizational strategic behaviour as the outcomes of these interactions. This perspective is proposed by Peng and his colleagues (2002, 2008, 2009) to examine the distinctive characteristics of the institutional environments in emerging market countries and analyse how they influence the strategic behaviours of firms. They argue that unlike in advanced economies, the institutional environment in emerging economies is often deficient and

is characterized by diversity and instability with dual of marketization, which provide the necessary context in the developing theory (Brouthers, O'Donnell, & Hadjimarcou, 2005; Cuervo-Cazurra & Genc, 2008; Hoskisson, Eden, Lau, & Wright, 2000; Meyer & Peng, 2016). This is in line with the call for highlighting the relative importance of context-specific in emerging market research (Peng, 2003; Peng, 2002; Peng, Wang, & Jiang, 2008). Furthermore, Peng (2002) suggests an institution-based view of IB strategy has become an integrative paradigm, which complements the industry- and resource-based views and complete the strategy “tripod” (Peng, Sun, Pinkham, & Chen, 2009).

Institution-based view has its theoretical roots from both economics (North, 1990) and sociology (Scott, 1995; Scott, 2003). According to North (1990), institutions are defined as ‘the rules of the game in a society or, more formally, the humanly devised constraints that structure human interaction’, which is classified as formal and informal institutions. Formal institutions are concerned with regulatory, political and economic rules, while informal constraints relate to codes of conduct, norms of behaviour, and conventions and values embedded in culture and ideology (North, 1990). In sociology, Scott (1995, 2003) states that institutions are supported by three ‘pillars’: regulative, normative, and cognitive pillars (Scott, 2003). The regulative pillar stands for instrumental rules and laws to ensure the stability of the society. The normative pillar refers to social norms, and values and beliefs that define what is appropriate and right for a society’s member. And the cognitive pillar can be translated as widely shared social perceptions of what is typical or taken for granted (Zhang, Zhou, & Ebberts, 2011). The sociological definition of institutions has close interaction with the economics perspective of the institution theory (Kostova, Roth, & Dacin, 2008; Peng, 2002). The regulative element in organizational sociology roughly overlaps with the formal

dimension in institutional economics, while both normative and cognitive pillars have conceptual similarities to informal institutions (Scott, 1995). Informal institutions that include norms, ethics and culture are supported by a normative pillar, or how the values, beliefs and actions of other relevant players influence the behaviour of individuals and firms; and a cognitive pillar, which is the internalized, taken-for-granted values and beliefs that guide individual and firm behaviour. Although the definition of institutions in new economics and organizational sociology share intertwined use in some degree, they have different intellectual roots. The major concern in institutional economics lies in the degree to which the efficient institutions can remove or reduce the uncertainty in the environment and constrain potential opportunistic behaviour thus lowering transaction costs for market exchanges (North, 1990; Williamson, 2000). The sociological perspective, on the other hand, focuses more on organizational practices and the need for organizations to comply with the institutionalized rational myths in order to obtain legitimacy (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Suchman, 1995).

From the institution-based perspective, institutional environment regulate economic activities by setting the rules of playing the game as the basis for production, exchange and distribution (Davis & North, 1971). Firms need to strictly follow such rules and belief systems that have been widely accepted in the external environment, in order to ensure survival and gain legitimacy in business operations (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). In other words, organizations are motivated to enhance their legitimacy by becoming isomorphic with their environments, which compels organizations operating within the same environment to adopt similar structures, strategies, and procedures (Deepphouse, 1996; DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Yiu & Makino, 2002). The firms who fail to conform to an environment's

prevailing rules and belief systems may be viewed as illegitimate and, thus, denied access to key resources they need to survive (Dacin, 1997; Heugens & Lander, 2009; Suchman, 1995). Therefore, in comparison to efficiency-based institution, the sociological perspective of institutions takes institutional legitimacy and isomorphism as the ultimate criterion for an organization's strategic decision (Meyer & Rowan, 1977; Scott, 1995).

From the institution-based perspective, MNEs not only face institutional pressure in the host countries but also need to accommodate institutional pressures and obtain legitimacy in their home country (Cuervo-Cazurra, Luo, Ramamurti, & Ang, 2018; Zhang, Zhou, & Ebbers, 2011). It is well documented that MNEs are deeply rooted in the institutional environments of their home country and their behaviours are largely influenced by home institutions (Hobdari, Gammeltoft, Li, & Meyer, 2017). This is particularly true for EMNEs who are usually embedded in a relatively dysfunctional institutional environment with high levels of government intervention and institutional hardship, in which the well-developed institutions are not taken for granted (Peng, 2003). The impact of home country institutions is not only displayed in the domestic growth of firms but also can be extended to their activities abroad (Boisot & Meyer, 2008; Hobdari, Gammeltoft, Li, & Meyer, 2017; Luo & Wang, 2012; Luo, Xue, & Han, 2010). This is also in line with the argument of organizational imprinting that the specific 'heritage' from firms' home country shapes their strategic decisions around the world (Elango & Sethi, 2007; Hobdari, Gammeltoft, Li, & Meyer, 2017).

China has a unique institutional environment that is different from advanced economies (Child & Rodrigues, 2005; Luo, Xue, & Han, 2010; Mathews, 2006). Although China as a transitional economy is undergoing radical change from central planning to market-oriented reform, government influence is still overwhelming (Child

& David, 2001). Chinese firms are not only required to abide by the regulations issued by governments, but also need to meet the political expectations of governments (Gao, 2008), such as transferring high technologies or ensuring the domestic economic growth. Moreover, the hierarchically structured government in the central and local governments has pushed Chinese firms to encounter different levels of policy and regulations (Guthrie, 2001; Tan, Li, & Xia, 2007). And it has been observed that the policies and administrations from different levels of governments and their agencies are often inconsistent and self-conflicting (Chen, 2004). In addition, the capital market in China is mostly controlled by the government in which state-owned enterprises have privilege of accessing to funds at a below market rate but private firms cannot (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007). Meanwhile, institutional hazards such as regulatory uncertainty, inefficient legal systems, political corruption and lack of intellectual property rights protection are still pervasive in current institutional environments (Luo & Wang, 2012; Wang, Hong, Kafouros, & Wright, 2012). The under-developed/deficient institutions in China has been recognized in a number of studies (Cuervo - Cazorra, 2012; Gammeltoft, Pradhan, & Goldstein, 2010; Ramamurti, 2008).

The under-development of formal institutions acts as a catalyst for developing informal networks in China (Peng, Wang, & Jiang, 2008). It is well documented that the individual and Chinese firms are enthusiastic in building relationships (*guanxi*) with others (Leung & Yeung, 1995; Tsang, 1998; Xin & Pearce, 1996). *Guanxi* emerges from the traditional Chinese philosophy of Confucianism, which is deeply embedded in China's cultural and ideology. Confucianism has shaped the social interaction of people in eastern and southeastern Asian countries for more than 2000 years, and has become the recognized ethical belief system in almost every aspect of social life (Gao,

2008; Park & Luo, 2001). Chinese firms have taken guanxi as a strategic mechanism to mitigate formal institutional disadvantages at home (Park & Luo, 2001).

2.3.1 Home country institution and Chinese MNEs location

Home institutions can be conceptualized as location-based factors that encourage or deter companies expanding abroad (Dunning & Lundan, 2008). Witt and Lewin (2007), for example, propose an ‘institutional escapism’ perspective in which firms from emerging countries might seek to invest in foreign markets with favourable institutions in response to poor institutional structure at home. In a similar vein, Boisot and Meyer (2008) develop ‘institutional arbitrage’ to capture Chinese firms’ pursuit of efficient institutions abroad (Luo & Wang, 2012).

The review of existing literature in Chinese MNEs indicates that the role of home country institutions in OFDI location has been investigated mainly from the following three perspectives: home country institutions as escapism driver, home country institutions as advantage builder, and the government role in OFDI strategies of MNEs.

Home country institution as institutional escapism driver

It is well documented that the deficient institutions in China’s market does appear to suppress the capital outflow of Chinese MNEs (Fu, 2000). Existing studies in Chinese OFDI investigate the driving force behind institutional evasion from two aspects: institutional escapism and institutional arbitrage. Specifically, the institutional escapism view (Witt & Lewin, 2007; Yamakawa, Peng, & Deeds, 2008) suggests that unfavourable institutions in the home country, such as lack of legal protection for property rights, unpredictable regulatory changes, government interference, and corruption in the government sector compel firms to transfer their practice to a more efficient and developed institutional environment (Luo & Tung, 2007; Luo, Xue, & Han, 2010). The concept of institutional arbitrage (Boisot & Meyer, 2008; Gaur & Lu,

2007) refers to the situation in which firms exploit variations between institutional arrangements in different economies.

A group of scholars has indicated that many Chinese MNEs investing abroad do so not to exploit existing competitive advantages, but to escape the unfavourable domestic market that has already been over-regulated (Boisot, 2004; Child & Rodrigues, 2005). Some widely acknowledged institutional constraints in China include: (1) local protectionism lead to regional segmentation thus restricting firms' expanding in scale; (2) limited access to the capital market that prevents enterprises from obtaining sufficient funding for optimal scale of production; (3) poor protection and enforcement of intellectual property rights constraining the progress of domestic independent R&D; (4) underdeveloped vocational education and training system is not beneficial to cultivate experienced and skilled workforce; (5) insufficient local infrastructure increases the logistics cost of doing business at home (Boisot, 2004; Rui & Yip, 2008).

Scholars have pointed out lack of legal protection for intellectual property rights discourage Chinese firms to take extra efforts on innovative activities (Chang, 2001; Fang, Lerner, & Wu, 2017). The misalignment between firms' innovation demands and poor institutional conditions at home eventually leads Chinese firms to investing abroad to seek more efficient innovation environments (Deng, 2009; Rui & Yip, 2008). Luo and Tung (2007) explain one of the important motivations for Chinese companies using international expansion as a springboard is to alleviate constraint factors in the domestic innovation system by acquiring strategic assets and to thus improve their competitive advantages (Deng, 2009). Boisot and Meyer (2008) argue that China's administrative decentralization system that delegates the governance of the national economy into multi-levels of regional government increases the inter-jurisdictional competition and regional disparities across provinces and municipalities, which gives rise to the

substantial administrative costs incurred by domestic firms operating across provincial boundaries. When the transaction costs of crossing domestic boundaries is higher than those of crossing international borders, firms will consider moving business abroad to escape from institutional constraints at home (Boisot & Meyer, 2008; Wei, 2010).

Secondly, inefficient home country institutions serve as a driver for institution arbitrage. A significant share of China's total OFDI flows has gone into tax havens, and most of them are driven by parking Chinese money overseas for registration as a foreign status, which is then reinvested back into China to take advantage of privileged treatment as other foreign investors firms (Davies, 2013; Davies, 2009; Luo & Tung, 2007; Morck, Yeung, & Zhao, 2008; Sutherland & Ning, 2011). This phenomenon has been defined by scholars as round-tripping investment (Huang, 2003). Hong Kong, Cayman Island and British Virgin Islands are usually considered as the most favoured destinations for China's round-tripping OFDI (Cheng & Ma, 2010; Morck, Yeung, & Zhao, 2008; Sutherland & Matthews, 2009).

Some scholars argue that Chinese firms undertake OFDI through tax havens and offshore financial centres for the purpose of raising capital in international capital markets and not only for purely circumventing domestic constraints (Morck, Yeung, & Zhao, 2008; Sutherland & Matthews, 2009). Investing firms register a holding company in tax havens, and then use this holding company as a base either to finance their projects in overseas markets or to support domestic market expansions (Deng, 2004; Luo & Tung, 2007; Sutherland & Ning, 2011). Based on surveys of 51 Chinese private firms, Sutherland and Ning (2011) show that financially weak companies are more likely to invest abroad through tax havens with the aim of getting better access to capital. In the same vein, Voss, Buckley and Cross (2010) interview one state-owned enterprise, and six private firms and collective enterprise in Yangtze River Delta, and find that

preferential access to capital from the domestic capital market is not widely available to smaller firms compared to large, state-owned firms. Some private companies are compelled to invest overseas mainly for securing external financing rather than engaging in global production networks (Amighini, Rabellotti, & Sanfilippo, 2013; Voss, Buckley, & Cross, 2010). This is in contrast with Buckley et al. (2007) in which they argue that Chinese firms have enjoyed privileged access to capital on preferential terms because of domestic capital market imperfections.

Home country institutions as advantage builder

Chinese MNEs are also found to invest in developing countries in Asia and Africa, most of which have similar institutions as China (Cooke, 2014; Duanmu, 2012). EMNEs do not necessarily fall behind in competing with their advanced country rivals (Lall, 1983; Lecraw, 1993; Wells Jr, 1977). EMNEs do have competitive advantages, but these are mainly non-traditional advantages that have been built by leveraging advantages of their home countries (Cuervo - Cazorra, 2012; Ramamurti, 2012; Williamson, 2015). The unique home country institutions help to shape ownership advantages possessed by EMNEs.

Buckley et al. (2008) indicate that the experiences of dealing with institutional environments in their domestic markets enable Chinese MNEs to compete successfully with developed-country MNEs when they enter developing countries. Perkins (2005) shows that their previous experiences in a given institutional environment may significantly increase the chances of survival in other economies with similar institutions. Such capabilities become an intangible asset for Chinese companies that make OFDI into similar institutional countries far more profitable. Chinese firms are driven to seek investment opportunities in foreign markets that resemble their home country environments partially because the experiences of operating in a highly

regulated domestic environment may have equipped them with the special ownership advantages needed to be competitive there (Alden & Davies, 2006; Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007). The similar institutional environment in the host country increases the likelihood of Chinese firms obtaining legitimacy (Deng, 2004).

This ownership advantage that derives from home country-embeddedness (Makino, Lau, & Yeh, 2002) gives Chinese MNEs great confidence to negotiate with host country governments, thus reducing the negative impact of government intervention on their business operations, as well as obtaining information from opaque regulatory conditions and weak market-enhancing institutions, which the developed country MNEs may find it difficult to adapt to (Buckley, Cross, Tan, Xin, & Voss, 2008; Ramamurti, 2004). Furthermore, the effect of home country embeddedness improves Chinese firms' capabilities in response to the uncertain changes in host country institutions (Yiu, Lau, & Bruton, 2007). For developed-country MNEs, corruption or other deficient institutions in developing countries may create obstacles for their local operations and put investors under pressure to exit from this market (Morck, Yeung, & Zhao, 2008). In contrast, EMNEs are often well-adjusted to a bureaucratic system, and are more capable of dealing with burdensome regulations and intervention under the opaque political constraints (Duanmu, 2012).

Morck, Yeung and Zhao (2008) contend that Chinese SOEs can achieve large returns on investments by expanding into economies with similar institutions abroad. They take one of the CNPC's projects in Kazakhstan for example. The state-owned CNPC took over PetroKazakhstan while the private Canadian firm could not enforce the previous contract with a Kazakh government obsessed with expropriation. This further confirms that compared with developed-country firms, Chinese MNEs are certainly capable of obtaining contracts through government channels. Similarly, the

result of Kiggundu (2008) show that Chinese OFDI in Africa is heavily concentrated in only a few countries, but which are characterized by a high level of political risk and a pool level of global competitiveness (Kiggundu, 2008). Chinese firms can secure deals through non-commercial channels in dealing with countries in Africa (e.g. Angola, Nigeria, and Sudan) that have a weak institutional infrastructure (Alden & Davies, 2006).

The role of government in China's OFDI location

As one of the most important part of institutions, the home government has played a decisive role in the development of China's OFDI (Deng, 2004; Luo, Xue, & Han, 2010; Marinova, Child, & Marinov, 2012; Rui & Yip, 2008; Yan, Hong, & Ren, 2010). During the 1980s and early 1990s, Chinese government imposed strict regulations and controls on OFDI, and only a few selected industries and state-owned enterprises were allowed to invest overseas. However, in the late 1990s, Chinese government began a gradual liberalization from a highly restrictive policy to explicitly encouraging more Chinese enterprises to go abroad (Cheung & Qian, 2009; Wong & Chan, 2003; Wu & Chen, 2001). The constant change of government policy toward OFDI requires Chinese firms to readily adjust their internationalization strategy in accordance with the expectation of China's government (Child & Rodrigues, 2005).

The OFDI by Chinese MNEs is not completely driven by economic considerations; some of them especially SOEs carry heavy policy burdens including national economic strategies and natural resource security (Chen & Young, 2010; Song, Yang, & Zhang, 2011; Voss, Buckley, & Cross, 2010). Non state-owned enterprises were not allowed to engage in overseas investments in the early stage of developments. The outward investments were dominated by state-owned enterprises owned by central and regional governments whose activities cannot represent the overall competitiveness of Chinese

firms. As their commercial activities on behalf of an owner government, the location strategies of Chinese MNEs are mainly motivated by political considerations mixed with economic objectives (Cheung & Qian, 2009; Wu & Chen, 2001).

Deng (2004) indicates that China's government often uses OFDI as a channel to develop its relationships with other economies. The flux of Chinese OFDI to Hong Kong prior to Hong Kong's return to China in 1997 is one of the prominent examples (Deng, 2004; Wu & Chen, 2001). There are other examples of Chinese firms expanding abroad in order to satisfy the mandate of the Chinese government. In the early 2000s, Chinese agricultural SOEs such as the Chinese Agricultural-Farming Group began purchasing land in Africa. Investment in Africa's farmlands by SOEs is certainly consistent with the Chinese government's long-term strategy to establish overseas land reserves in light of the scarcity of land and the need for food security in China (Alden, 2005).

With the development of market-oriented reform, the role of government in China's OFDI has gradually evolved from direct regulation to indirect support (Luo, Xue, & Han, 2010). Since the 'going abroad' policy initiated in 2000, Chinese government has set up a comprehensive policy system to provide support for firms' overseas investments. A guidance catalogue was issued to identify the referential list of countries and industries for the outward investments of Chinese firms, and all the investment projects complying with this guideline could receive preferential treatment and institutional support (Holtbrügge & Berning, 2018; Luo, Xue, & Han, 2010). The industries and outward investment projects that Chinese government would like to encourage include: the projects that promote the export of domestic product and equipment; the projects that support domestic technological innovation and R&D development; and projects that are related with acquiring an international brand, the

specific business line and advanced marketing skills. This policy contributes to the rapid growth of China's outward investments in seeking strategic assets and foreign markets.

The Chinese government provides other incentives for supporting OFDI through tax rebates and subsidized loans, loosening foreign exchange control (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Rugman & Li, 2007; Rui & Yip, 2008). The Chinese government grants to some firms certain types of OFDI exemption from foreign exchange administrative approval and eases the restrictions on the use of foreign currency, which largely reduces the foreign exchange constraints that are imposed on Chinese firms' OFDI (Voss, Buckley, & Cross, 2010). Furthermore, the Chinese government has given Chinese companies advantages, such as privileged access to domestic government and education markets and sources of scientific and technical research (Child & Rodrigues, 2005).

Furthermore, the most discussed issue in extant studies is the financial support from the government for Chinese OFDI (Luo, Xue, & Han, 2010). Fiscal support from the government and its agencies has become the basis of the competitive advantage of Chinese MNEs (Buckley, Cross, Tan, Xin, & Voss, 2008). Buckley et al. (2007) argue that one of the primary forms of financial support to Chinese SOEs is subsidized loans from Chinese state-owned banks at below market rates. The imperfection in the domestic capital market may be transformed into ownership advantages by Chinese MNEs. The developing country governments indeed play an instrumental role in setting the institutional framework for OFDI activity (Buckley, Cross, Tan, Xin, & Voss, 2008).

Chinese MNEs especially SOEs expand into developing countries for natural resource seeking or market seeking largely driven by political consideration and cooperation between the Chinese government and the host country. Many Chinese

SOEs have successfully obtained contracts in Africa's infrastructure because of the Chinese government's Africa agenda (Lin & Farrell, 2013). These infrastructure contracts are often related with natural resource projects (Kandell, 2010). The strong diplomatic relations between China and Africa have provided a stable foundation for Chinese outward investment in African countries (Kiggundu, 2008).

2.4 Network-based View and OFDI Location

Since Johanson and Mattsson (1985) introduced the network theory into the studies of corporate internationalization (Johanson & Mattsson, 1985), more and more researchers have paid attention to the impact of business networks on the international behavior of MNEs (Chen & Chen, 1998; Ge & Wang, 2013). They have studied the role of business networks on obtaining strategic resources, including knowledge, information and opportunities, in the internationalization of firms, as well as how to construct firms' international networks.

Johanson and Mattson (1985, 1988) propose business networks as a set of two or more connected business relationships a firm has with its customers, distributors, suppliers, competitors and other companies (Johanson & Mattsson, 1988). According to the model proposed by Johanson and Mattsson (1988), the process of corporate internationalization is essentially the process of building and developing relationships with business networks in other countries. Such a kind of process can be developed from three ways – international extension, penetration, and international integration. International extension refers to building relationships with companies from other countries. International penetration stands for increasing commitments on existing international networks, while international integration concerns with integrating the network position of the MNEs in foreign markets.

There are two different theoretical perspectives underlying the study of international network. One stream of research focuses on social capital (Bourdieu, 1985; Coleman, 1988; Granovetter, 1985), while the other proposes the concept called “structural holes” (Burt, 2009; Burt, 1992). Social capital refers to the total resources, both tangible and intangible, that individuals or a social unit obtain through being embedded in a sustainable network. Such a network contains ‘more or less institutionalized relationship of mutual acquaintance and recognition’ (Bourdieu & Wacquant, 1992). As social capital represents the total social relationship possessed by an individual or a company, the magnitude of social capital decides its positions in the network. However, the allocation or distribution of social relationships within networks is unbalanced. Organization that embedded in sparse network is less able to get resources, while the dense network is more likely to provide more knowledge. In other words, it would be necessary for a company that is embedded in a network to move from a sparse area to a dense area in order to get more resources. Therefore, the formation of a corporate’s social network relies heavily on continuous accumulation and expansion of social capital.

On the other hand, Burt (1992) believes the companies that occupy more structural holes could get diversified and heterogeneous resources, as well as improve their competitiveness through building bridges or ties between entities that are dominant in social networks. The perspective of structural holes regards the formation of social networks as a dynamical process of reconstruction and co-evolution. Gulati and Gargiulo (1999) argue that organizations’ decisions to enter into new strategic alliances, within which they are going to acquire potential resources, are based on information from prior alliance networks (Gulati & Gargiulo, 1999). The results of their study show that the interdependence of these organizations, former mutual alliances, common third

parties, and common centrality in alliance network can increase the possibility of establishing new alliances with other organizations.

In addition to the formation of corporate international networks, researchers also pay close attention to the influence of international networks on foreign location choice, knowledge learning and company growth during internationalization. For example, Coviello and Munro (1997) conducted a case study on the software industry and examined the impacts of networks on the internationalization process of SMEs (Coviello & Munro, 1997). Integrating incremental internationalization theory with the perspective of networks, they find that the internationalization process of SMEs in the software industry reflect an accelerated version of the stage model, and is driven by a set of formal and informal network relationships. These relationships could affect a firm's decision on their international pattern as well as their product development and market diversification in foreign countries (Coviello & Martin, 1999). The studies of both Moen et al. (2004) and Zain et al. (2016) also confirm that network relationships have great effects on the foreign location choice and entry mode of MNEs (Moen, Gavlen, & Endresen, 2004; Zain & Ng, 2006). Although Powell et al. (1990) argue that business networks may restrict MNEs from entering the new market, the results of Jensen (2003) show that some of the network resources are transferable (Jensen, 2003), therefore existing networks can help compensate for firms' foreignness in entering new market as the resources that were acquired from existing markets can be transferred to new markets (Yamakawa, Peng, & Deeds, 2015). His research also indicates that different network resources, such as network status and market connection, do not always lead to additive effects. In some cases, they may have substitutions effect. Chetty and Blankenburg (2000) find that business networks help MNEs identify new opportunities, acquire new knowledge and achieve synergy from the pooled resources

(Chetty & Blankenburg Holm, 2000). They suggest that the managers should not only focus on the internal barriers to firm internalization, but also need to engage in external networks that could provide essential resources and opportunities for the firm growth. For a company, obtaining resources, such as knowledge and opportunities, through external network are crucial. Dhanaraj et al. (2004) investigate the impact of network embeddedness on the transfer of explicit knowledge and tacit knowledge between parent company and their joint venture subsidiaries (Dhanaraj, Lyles, Steensma, & Tihanyi, 2004). The results show that the network embeddedness has a positive effect for both types of knowledge, although the effect of the network on the transfer of tacit knowledge is much stronger.

2.4.1 Home country business network

Although much of the literature state that business networks have a great influence on corporate strategy and performance (Burt, 1992; Nahapiet & Ghoshal, 1998), the research on the relationship between business networks in the home country and the international expansion of MNEs is still under-explored (Guler & Guillén, 2010). Business networks of firms in their home country contribute to their overseas investments, especially for EMNEs (Yiu, Lau, & Bruton, 2007), because companies may be driven by vertical relationships with partners (e.g. suppliers or customers) and follow their business partners abroad. This kind of ‘herding OFDI’ not only improves the bargaining power among host stakeholders and corporate, but also helps to attain legitimacy in host countries. Companies can obtain valuable information and experiences from the home country peers in the same business network that have already conducted investments in the same country, so that they may better overcome the liability of foreignness (Guillen, 2002). Zhou, Wu and Luo (2007) argue that the business network from the home country could moderate the relationships between

internationalization (both of inward internationalization and outward internationalization) and corporate performance (Zhou, Wu, & Luo, 2007).

Based on above argument, Table 2.3 shows a summary of classic theoretical framework/approaches that are used to explain ofdi location in IB and strategy field as well as in economic geography literatures.

2.5 Studies on China's OFDI

2.5.1 The evolution process of China's OFDI

Before 1978, the absolute magnitude of China's OFDI was quite negligible. The launch of economic reform and opening-up policy in 1978 was a key event in the process of China's OFDI (Cheung & Qian, 2009). In 2001, the 'going global' strategy initiated by the Chinese government and China's entry into WTO were the landmark events in the history of China's OFDI development. Therefore, the process of China's OFDI could be divided into four stages of development (Buckley, Cross, Tan, Xin, & Voss, 2008; Voss, Buckley, & Cross, 2010; Wong & Chan, 2003).

First Stage (from 1979 to 1985): Start-up Stage

During this stage, only authorized trading enterprises and provincial or municipal international economic and technological cooperation companies were allowed to engage in OFDI (Buckley, Cross, Tan, Xin, & Voss, 2008). The great bulk of trading companies' OFDI was located in neighboring countries or in the same country as their export destinations, such as Asia, especially Southeast Asia, while the provincial or municipal international economic and technological cooperation companies targeted Middle East and Africa as the main location.

Until the end of 1985, China had set up 189 nontrade foreign subsidiaries with an overall investment volume of US \$197 million. The average scale of overseas

investment was US \$1,000,000. These outward investments were distributed in 45 countries or regions, mostly in Hong Kong and Macao. During this stage, the location choice of Chinese OFDI was mainly driven by the market-seeking orientation (Buckley, Cross, Tan, Xin, & Voss, 2008).

Second Stage (from 1986 to 1991): Gradual Development Stage

In 1985, in order to simplify the procedures and reduce approval time, MOFTEC (Ministry of Foreign Trade and Economic Cooperation) issued ‘Approval procedures and administrative method for establishing non-trade management joint ventures abroad’ (Huang & Andreas, 2012). Meanwhile, MOFTEC delegated some of its examination and approval authority for foreign-invested projects. And from this stage, it began to allow more firms, especially non-state firms, to establish branch offices or subsidiaries in foreign countries. Competent enterprises with sufficient capital, and a high level of technical and operational knowledge were encouraged to engage in international expansions.

During this stage, the number of non-trade outward investment projects increased by 819, and the total amount of OFDI reached US \$1.2 billion (Cheung & Qian, 2009; Wong & Chan, 2003). These overseas investment projects covered more than 90 countries or regions. Although most of them were concentrated on Asian, including Hong Kong and Macao, some Chinese firms began to step into developed countries. At the end of 1990, almost two-thirds of China’s OFDI was made in Asia, the US, Australia, former Soviet Union and Canada, including 40 percent in Hong Kong, Macao, Singapore and Thailand (Cheng & Ma, 2010). The remaining 270 OFDI projects were distributed across more than 80 countries or regions. The former concentration of OFDI in a narrow range of industries in service sector was gradually extended to other

industries, including natural resources, processing and assembly industry, and other industries.

Third Stage (from 1992 to 2001): Expansion Stage

Suffering from an overheating economy, the China central government took measures to adjust the economic structure and tighten monetary policy during 1992 to 1998. The whole national economy in China entered a period of recovery and adjustment. Accordingly, MOFTEC started to tighten approval procedures and apply a stricter and more rigorous screening and monitoring process with the concerns about the loss of state assets and the leakage of foreign exchange (Buckley, Cross, Tan, Xin, & Voss, 2008; Cheung & Qian, 2009).

In 1998, the 2nd plenary session of the 15th Congress of the Chinese Communist Party released a policy document highlighting that ‘while actively expanding exports, government must organize and support a number of powerful and advantageous state-owned enterprises to go overseas and set up factories, especially in Africa, Central Asia, the Middle East, Central Europe, and South America’ to engage in overseas processing and trade, thus realizing the international transfer of mature industries. In 1999, the State Council published ‘Opinions on encouraging enterprises to carry out overseas material processing and assembly’, which laid the foundation for China’s subsequent ‘going global’ strategy. Subsequently, MOFTEC and other related departments published 12 policies to encourage companies to develop overseas processing and assembly operations (Huang & Andreas, 2012). Different from the period of 1991-1998, the year after 1998 witnessed a revival of overseas investments, especially in the processing and assembly industry.

During this stage, China's overseas investments increased by US \$1.2 billion. China made a great breakthrough in overseas investments, especially in overseas processing and resource developments (Buckley, Cross, Tan, Xin, & Voss, 2008). The investing entities were increasingly diversified. By the end of 1992, China had set up 4,117 foreign subsidiaries in more than 120 countries or regions. Nearly 50 percent of total outward investments were distributed in the US, the former Soviet Union, Thailand, Japan, Australia, Canada, Singapore, Malaysia, and Germany, including 40 percent in Hong Kong and Macao. In comparison, there were only 183 enterprises in Africa and 143 in Latin America, accounting for 4.5 percent and 3.5 percent of the total number of China's overseas enterprises, respectively. By the end of 1994, China had invested 1,763 non-trade overseas enterprises in 147 countries or regions with the total OFDI of US \$1.758 billion. The high concentration of Chinese investments was still prominent (Cheng & Ma, 2010). Top 10 host economies as ranked by the number of investing enterprises received 55.98% of all Chinese investments. And as ranked by the amount of outward investments, the investments in the top 10 host economies constituted 97.84% of the total Chinese OFDI, in which the OFDI flow to the US, Canada, and Australia accounted for 58% of the total amount.

By the end of 2001, China had set up 6,610 overseas enterprises in foreign countries. The outward investments were distributed across more than 160 countries or regions. The overall distribution of overseas enterprise was Hong Kong and Macao (46.8%), North America (13.6%), Asia (11.0%), Africa (9.1%), Europe (5.9%), Oceania (6.2%), and Latin America (7.4%). In 2001, the top 4 countries or regions that received the highest amount of China's OFDI were Hong Kong (US \$3.52 billion), the US (US \$649 million), Canada (US \$432 million) and Australia (US \$378 million). From the changing trend of OFDI destinations, it can still be observed that China's OFDI

distribution was highly unbalanced and mainly concentrated in North America, Europe and Asia, while many developing countries, such as those in Africa, received relatively less investments from Chinese MNEs (Table 2.1).

China's OFDI flow increased from US \$2.52 billion in 2002 to US \$143.04 billion in 2018 (Figure 2.1). It showed an overall increase of 57 times, and except a slight decline caused by global financial crisis in 2008, the amount of China's OFDI had been stably and rapidly growing after the year of 2001. Meanwhile, the overall stock of China's OFDI increased from US \$29.9 billion at the end of 2002 to US \$ 1.98 trillion in 2018. It increased by about 66 times.

In terms of geographical distribution, China's OFDI mainly flowed to Asian area. Although the amount of China's OFDI in Asia decreased from 2009 to 2011, Asian still occupies an absolute advantage in receiving China's OFDI comparing with other regions. In addition, the proportion of China's investment in Latin American has decreased year by year, while the level of China's investment in Africa and Europe has been increasing at a steady rate (Chen, 2018). A huge amount of China's investment flows into the Asian region because of their advantages of lower labor costs and smaller geographic and cultural distances. While maintaining a high level of investments in Asia, the proportion of China's investments in other regions present a stable increasing pace, indicating that the geographical distribution of China's OFDI had become diversified. According to Dunning and Lundan (2008), the location choice of MNEs is a process of selecting those countries or regions that can strengthen and complement their core competitiveness. Chinese MNEs investing in Europe and North America are partially driven by accessing advanced technological knowledge and the large market size in advanced countries, which could help to improve the global competitiveness of Chinese firms.

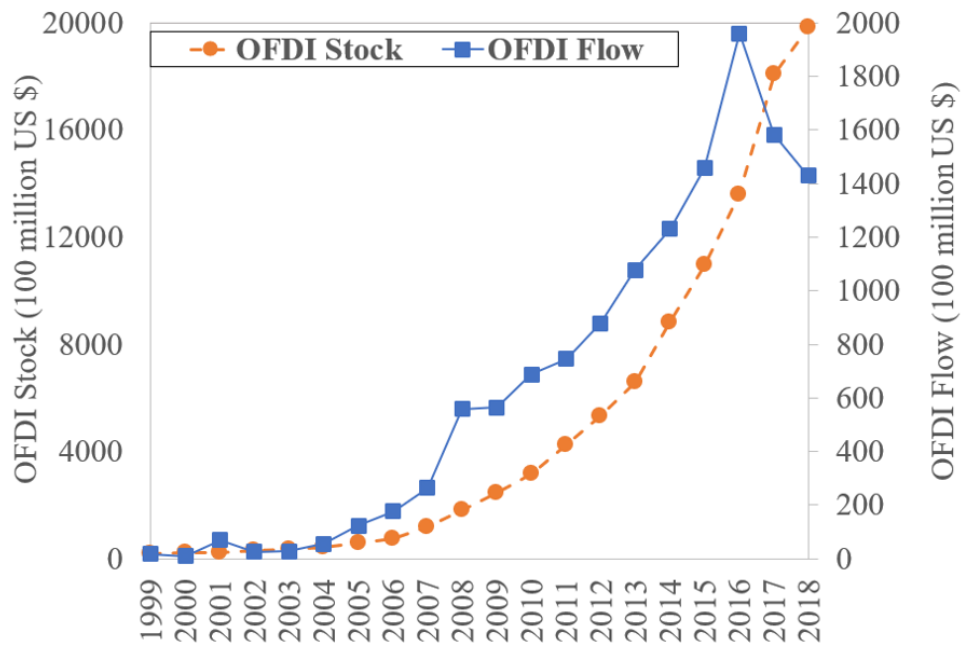
Table 2.1 The Regional Distribution of China's OFDI Flow and Stock for 2003-2018 (Unit: 100 million US\$)

	Regions	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
OFDI Flow	Total	28.5	55.0	122.6	176.3	265.1	559.1	565.3	688.1	746.5	878.0	1078.4	1231.2	1456.7	1961.5	1582.9	1430.4
	Asia	15.1	30.1	44.8	76.6	165.9	435.5	404.1	448.9	454.9	647.8	756.0	849.9	1083.7	1302.7	1100.4	1055.0
	Africa	0.7	3.2	3.9	5.2	15.7	54.9	14.4	21.1	31.7	25.2	33.7	32.0	29.8	24.0	41.1	53.9
	Europe	1.5	1.6	4.0	6.0	15.4	8.8	33.5	67.6	82.5	70.4	59.5	108.4	71.2	106.9	184.6	65.9
	L. America	10.4	17.6	64.7	84.7	49.0	36.8	73.3	105.4	119.4	61.7	143.6	105.5	126.1	272.3	140.8	146.1
	N. America	0.6	1.3	3.2	2.6	11.3	3.6	15.2	26.2	24.8	48.8	49.0	92.1	107.2	203.5	65.0	87.2
	Oceania	0.3	1.2	2.0	1.3	7.7	19.5	24.8	18.9	33.2	24.2	36.6	43.4	38.7	52.1	51.1	22.2
OFDI Stock	Total	332.2	447.8	572.1	750.3	1179.1	1839.7	2457.6	3172.1	4247.8	5319.4	6604.8	8826.4	10978.6	13573.9	18090.4	19822.7
	Asia	266.0	334.8	409.5	479.8	792.2	1313.2	1855.5	2281.5	3034.3	3644.1	4474.1	6009.7	7689.0	9094.5	11393.2	12761.3
	Africa	4.9	9.0	16.0	25.6	44.6	78.0	93.3	130.4	162.4	217.3	261.9	323.5	346.9	398.8	433.0	461.0
	Europe	4.9	6.8	12.7	22.7	44.6	51.3	86.8	157.1	244.5	369.8	531.6	694.0	836.8	872.0	1108.5	1128.0
	L. America	46.2	82.7	114.7	196.9	247.0	322.4	306.0	438.8	551.7	682.1	861.0	1061.1	1263.2	2071.5	3868.9	4067.7
	N. America	5.5	9.1	12.6	15.9	32.4	36.6	51.8	78.3	134.7	255.0	286.1	479.5	521.8	754.7	869.1	963.5
	Oceania	4.7	5.4	6.5	9.4	18.3	38.2	64.2	86.1	120.1	151.1	190.2	258.6	320.9	382.4	417.6	441.1

Data Source: The statistics are based on MOFCOM (2019).

Table 2.2 Top 10 Destinations of China's OFDI Stock for 2003, 2008, 2013 and 2018 (Unit: 100 million US\$)

Rank	2003		2008		2013		2018	
	Country (Region)	OFDI Stock	Country (Region)	OFDI Stock	Country (Region)	OFDI Stock	Country (Region)	OFDI Stock
1	Hong Kong, China	246.32	Hong Kong, China	1,158.45	Hong Kong, China	3,770.93	Hong Kong, China	11,003.91
2	Cayman Islands	36.91	Cayman Islands	203.27	Cayman Islands	423.24	Cayman Islands	2592.24
3	Virgin Islands, GB	5.33	Virgin Islands, GB	104.77	Virgin Islands, GB	339.03	Virgin Islands, GB	1304.97
4	USA	5.02	Australia	33.55	USA	219.00	USA	755.07
5	Macao, China	4.47	Singapore	33.35	Australia	174.50	Singapore	500.94
6	Iraq	4.37	South Africa	30.49	Singapore	147.51	Australia	383.79
7	Australia	4.16	USA	23.90	United Kingdom	117.98	United Kingdom	198.83
8	South Korea	2.35	Russia	18.38	Luxembourg	104.24	Netherland	194.29
9	Singapore	1.65	Macao, China	15.61	Russia	75.82	Luxembourg	153.89
10	Thailand	1.51	Kazakhstan	14.02	Kazakhstan	69.57	Russia	142.08



Data Source: From 1999 to 2001, the statistics are based on UNCTAD. For the period after 2001, the statistics are based on MOFCOM.

Figure 2.1 China's OFDI Flow and Stock for 1999-2018

2.5.2 Review on empirical studies on location strategy of MNEs

Location strategy is one of the most important strategies for MNEs (Dunning, 1998), as it is closely related with how the multinationals conduct value-added activities in different locations, and with how to allocate the resources in different geographical locations to improve the operational efficiency of the multinationals. There have been a large number of studies investigating the impact of different-level factors on the location strategy of MNEs (Kim & Aguilera, 2016). Based on previous studies, this study divides the location factors into three levels: country level factors, industry level factors and firm-level factors.

Country level factors

On the country level, the current study of OFDI location choice mainly concentrates on two aspects. One stream of research examines the effect of economic development or institutional environment in the host country, while another stream of study focuses

on the distance between China and the host country and its influence on OFDI location of Chinese MNEs.

Duanmu (2012) investigates OFDI location choice of Chinese manufacturers and finds that the exchange rate, market size, and resource endowment in the host country can significantly impact the location choice of Chinese MNEs. This result is confirmed in other studies (Schu & Morschett, 2017) which also find that market potential and market size play an important role in location choice of MNEs. Duanmu (2012) also discusses the effect of unemployment rate, economic risk as well as the level of economic freedom in the host country on the location choice of Chinese MNEs. Based on the observation of 194 location choices in 32 countries, his results show both large market size and favorable exchange rate have positive effects, while a relatively high unemployment rate could discourage market entry of Chinese MNEs. Economic risk and the level of economic freedom of the host country have no effect on OFDI location of Chinese MNEs. However, the effect of market size and the level of economic freedom show a different result in the study of (Kang & Jiang, 2012). They argue that the market size of a host country does not affect Chinese MNEs' location choice, and a higher level of economic freedom can be more attractive to Chinese enterprises.

There are other studies that have paid attention to the impact of bilateral relationship between China and the host country on OFDI location of Chinese MNEs. For example, Zong, Lu and Wu (2012) investigate the relationship between bilateral investment treaty and OFDI location of Chinese firms. Their results confirm that bilateral investment treaties indeed promote the probabilities of Chinese MNEs' entry in the signatory country, as the investment treaty can protect Chinese investment from being illegally occupied and expropriation (Zong , Lu, & Wu, 2012). In addition, the development in bilateral trade could also encourage Chinese firms to conduct outward

investments in the host country (Kang & Jiang, 2012). The development of bilateral trade increases the likelihood of Chinese investors obtaining legitimacy and reputation in the host country, thus it is easier for them to get accepted by local stakeholders.

Moreover, it has been widely recognized that the availability of strategic-assets in the host location does impact outward investments of Chinese MNEs as they are investing abroad mainly in search of advanced technological and innovative assets. For example, Demirbag and Glaister (2010) find that the abundance of scientific talents in a target country has a decisive impact on the location choice of the outsourcing base (Demirbag & Glaister, 2010). The results of Li, Li and Shapiro (2012) confirm that the technological superiority in a host country attracts overseas R&D investments by developing country MNEs (Li, Li, & Shapiro, 2012).

The political risk of a host country is an important determinant for Chinese enterprises to invest overseas. However, current studies have yielded mixed results concerning the effect of political risks on OFDI location. The empirical results in some studies (Blomkvist & Drogendijk, 2013; Duanmu, 2012; Kang & Jiang, 2012) show Chinese enterprises tend to avoid locating in countries with high political risks, while other studies (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Quer, Claver, & Rienda, 2012) argue that the political risk in a host country does not have negative impact on Chinese MNEs' location choice. Quer, Claver and Rienda (2012) do not observe any effect of host country's political risks on Chinese enterprises' location choice. Schu and Morschett (2017) indicate that a better institutional environment in a host country, such as a strong legal system, or effective governance mechanism, encourage more Chinese enterprises to invest in the country. The mixed empirical results can be attributed to several reasons. One of the probably explanations is that host countries with high political risks are often associated with more investing opportunities

for Chinese MNEs because they do not need to face large competitive pressure from their developed country rivals (De Beule & Bulcke, 2012).

In addition to host country factors, the business environment of home countries can also influence the location choice of Chinese MNEs. However, existing studies on how home country conditions especially home country institutions affect location strategy by MNEs are still limited. Although empirical studies conducted by Buckley et al. (2007) and Yan et al. (2010) include home institutional related factors, they do not provide robust results. For example, Buckley et al. (2007) investigate the effect of policy liberalization and the results reveal that there is a significant change in China's OFDI pattern before and after the year of 1992 due to the institutional reform at home. Similarly, Cheung and Qian (2009) also introduce time dummy variables to examine the implications of policy changes for Chinese OFDI, but the result is only significant for Chinese MNEs' entry into developing countries. Yan et al. (2010) include the home government support in their studies with the aim to examine the effect of home country specific advantages on Chinese OFDI location. The findings confirm the expected hypothesis that policy support from the home government does facilitate international expansion of Chinese MNEs, especially for state-owned enterprises (SOEs). Based on the survey of 137 Chinese enterprises, Luo and Wang (2012) find that the institutional development of China is negatively related with the probability of Chinese MNEs entering into a developed country. The more challenges the institutional environments in the home country, the more likely for Chinese firms to invest in developed countries to escape from deficient institutions at home. However, when the economic development reach a high level, Chinese firms would focus on domestic markets and reduce their investments in developed countries.

There are also a series of studies investigating the effect of distance between the home country and host countries in terms of geographical, cultural, psychological, and institutional environments on the location choice of MNEs. Schu and Morschett (2017) suggest that although access to the internet largely decreases the negative effect of geographical distance between countries, the difference in cultural dimensions in host countries still increases communication difficulties and the degree of information asymmetry, which could discourage foreign investments in these countries. The results of Jiang, Holburn and Beamish (2016) argue that both formal distance and informal distance deter MNEs' market entry, because the distance not only increases the information costs and coordination costs of operation in a host country, but also make MNE less able to be adapted to host market environments by leveraging their home country experiences. Schmitt and Van Biesebroeck (2013) find that when selecting foreign suppliers, car makers tend to select those suppliers from countries that are culturally similar to their home country, as these similarities can facilitate knowledge transfer and communication, and thus increase mutual trust (Schmitt & Van Biesebroeck, 2013). In contrast, based on the investigation of location behavior of Chinese MNEs, Quer et al. (2012) only find the relatively weak connection between cultural distance and OFDI location of Chinese firms. They explain this result may be partially attributed to the complicated motivations of Chinese MNEs in overseas expansion. Chinese firms that driven by strategic-asset seeking prefer to invest in countries with greater cultural distance, while those firms motivated by market-seeking may be more inclined to enter foreign markets with similar cultures. Moreover, the insignificant result in Quer et al. (2012) concerning the negative effect of cultural distance has not been widely acknowledged by academics because of the bias in their sampling selection. The research target of Quer et al. (2012) is Chinese large-sized

MNEs that usually possess relatively abundant resources with greater risk tolerance and are more likely to neglect the negative effect of cultural distance.

However, most studies suggest that the greater the cultural distance between China and the host country, the higher the costs of coordination and adaptation for Chinese firms in foreign markets, thus the higher the investment risk for Chinese MNEs. Therefore, in most cases, Chinese firms are less likely to invest in countries whose cultural dimension is distinctive from that in China. Such a negative impact of cultural differences between the home and host country on Chinese firms' overseas investment is further confirmed by most studies (Blomkvist & Drogendijk, 2013; Kang & Jiang, 2012). Blomkvist and Drogendijk (2013) examine the effect of different cultural dimensions on location choice of Chinese MNEs. Their findings show that Chinese enterprises tend to invest in countries that have a closer psychic distance and similar religious culture with the home country, while greater language distance is not a big concern for Chinese MNEs.

Industry Level factor

The most discussed factor on industry level is the role of experiential learning from peers in the same industry. Existing research highlights that MNEs can gain investing experiences from predecessors in the same industry or peers from the same country thus decreasing the operation risk in foreign markets (Kim, Delios, & Xu, 2010; Tan & Meyer, 2011; Yuan & Pangarkar, 2010).

After investigating the location choice of the retail industry, Baum, Li and Usher (2000) find that companies tend to obtain experiences or relevant knowledge of other firms in the retail industry by co-locating with large-sized chain stores or those stores that are similar to their own. Through such vicarious learning, companies can get better managerial and technological knowledge (Kim, Delios, & Xu, 2010). Vicarious

learning usually takes place among firms with similar characteristics, such as firms in the same industry, or that are located in the same geographic regions (Baum, Li, & Usher, 2000; Kim, Delios, & Xu, 2010). Based on the statistics of Japanese firms, Henisz and Delios (2001) also observe the imitation effect among organizations. The rise in the number of firms from same industry could increase the probability of focal firms entering the same location. Tan and Meyer (2011) find that foreign firms are more inclined to co-locate with foreign industry peers, or co-locate with FDI firms from the same home country. By engaging in foreign industry clusters, foreign investors can gain access to local industry-specific knowledge more efficiently, especially the knowledge concerning local industry forecasts, and this can also facilitate to identify the identification of cooperation opportunities in the local market.

However, Rose and Ito (2008) argue that although there is bandwagon effect for Japanese oligopolistic enterprises, such an effect does not always exist (Rose & Ito, 2008). In some key markets, some companies choose to locate away from other firms in the same industry in order to avoid direct competition with others. This finding is in line with the result of Chan, Makino and Isobe (2006). Co-locating with same-industry firms may generate two effects, legitimacy effects and competition effects. Chan, Makino and Isobe (2006) find an inverted U-shaped relationship between the location choice from same-industry peers and the probability of focal firm entry into a given country (Chan, Makino, & Isobe, 2006). When the number of same-industry peers increases, the focal firm may face the greater competitive pressure, and therefore the probability of entering the given country may decrease.

The experiential experiences from peers in the same industry also encourage Chinese MNEs to invest in similar markets (Luo & Tung, 2007). Firstly, Chinese MNEs can get access to relevant knowledge and information and reduce transaction costs and

uncertainty in local markets by learning from their peers in the same industry. Secondly, the externalities from industry-specific agglomerations in the host country can provide opportunities for Chinese firms to share technological and managerial knowledge and resources, and allow easier access to a large pool of specialized input and services (Krugman, 1991; Marshall, 1920). Therefore, driven by the information spillover or agglomeration externalities, MNEs will be more likely to follow others in the same industry while making location decisions (Henisz & Delios, 2001). This argument is supported in extant studies (Guillen, 2002; Henisz & Delios, 2001).

Firm Level factor

On the firm level, the most studied influential factors are the investment motivations and firms' prior experiences. He and Wei (2011) state that MNEs market-seeking oriented OFDI are inclined to enter countries with greater cultural distance, as it allows for better exploiting their marketing capabilities in the host market. For example, they know how to accommodate local customer needs as well as accurately forecast market trends, which help MNEs to overcome the uncertainty caused by cultural differences. Huett, Baum, Schwens and Kabst (2014) find that market-seeking SMEs with a high-level of technological advantage would like to invest in developed countries, because the customers in advanced markets have greater demands for high-tech products. Meanwhile, they find strategic-asset seeking SMEs also prefer to invest in developed countries, as developed countries can provide these enterprises with advanced technological resources (Huett, Baum, Schwens, & Kabst, 2014).

Internationalization of companies is an incremental, gradual process, in which multinational enterprises accumulate experiences through repeated and multiple outward investment activities (Johanson & Vahlne, 1977). Woodward and Rolfe (1993) suggest that foreign investor's previous experience in the host country may

substantially increase their probability to reinvest in that country (Woodward & Rolfe, 1993). Lu, Liu, Wright and Filatotchev (2014) propose that the prior experiences in the host country can help enterprises to obtain knowledge about the local market and build a local knowledge base. Such a local knowledge base can help MNEs build connections with local stakeholders and reduce the operational risk in their subsequent entry. Thus, MNEs would be more likely to reinvest in the same host country. This argument is supported by empirical analysis on Chinese MNEs. Li, Guo and Xu (2017) further analyze the different dimensions of experiential learning. As experiences will fade or decay over time, Chinese firms tend to select the recently invested country as the subsequent location choice.

In addition to prior experiences, Wang, Hong, Kafouros and Wright (2012) investigate the effect of state ownership on the location strategy by Chinese MNEs. Their result shows that a higher share of state-owned assets enables Chinese firms access to more resources and support from the government in dealing with less-developed institutions, thus increasing their probability to invest in developing countries. The study by Karreman, Burger and van Oort (2017) is one of few exceptions that study subnational locations as location decisions by Chinese MNEs. They focus on the influence of overseas Chinese communities at subnational regional level and find that ethnic Chinese communities have a significantly positive role in attracting Chinese MNEs investment in Europe.

Table 2.4 shows a brief summary of representative empirical studies on location strategies of Chinese MNEs. It can be found that the majority of studies focus on host country factors, and the measure for location strategies is confined to the likelihood of location choice.

To make the picture clearer, more systematic research is needed to examine the impact of home-country environment on the location strategies of Chinese MNEs (Peng, 2012). Compared to MNEs from developed countries, Chinese firms generally lack strong firm-specific advantages and have to depend on home-country advantages to develop competitive advantages (Krugman, 2009; Rugman & Li, 2007). Some scholars argue that Chinese MNEs possess firm-specific advantages that are home-based or home related, such as low cost competitiveness (Wei, 2010). In this sense, the capabilities of Chinese MNEs may be largely shaped by the home country environment, in particular the unique home institutions. This is in line with Dunning's view (1980) that firm-specific factors are derived from firms' interaction with critical resources that are specific to the country especially their country of origin. More importantly, most of Chinese OFDI activities are heavily controlled by the Chinese government or policies in the form of financial support or institutional constraints. Resources- and strategic asset-seeking FDI are the two cases in point. While search for natural resources is directed by the government to ensure a stable supply of resources for home consumption, acquisition of strategic assets is encouraged by the government to improve the global competitiveness of Chinese firms. Therefore, incorporating home institutional institutions in a location model would shed new light on understanding the characteristics of Chinese MNEs' strategies.

Second, a more comprehensive and multi-dimensional measurement is required in order to better capture the location strategy of Chinese OFDI. There has been a predominant use of location probability or FDI flow as an indicator of location strategy. For example, Amighini et al. (2013), Duanmu (2012), Quer et al. (2012) and Yuan and Pangarkar (2010) include a dummy variable to assess the location decision. Likewise, Cheung and Qian (2009), Kang and Jiang (2012), Kolstad and Wiig (2012) use OFDI

flows as a dependent variable. With a few exceptions (Luo & Wang, 2012; Pangarkar & Yuan, 2009), there is little research so far that goes beyond the location choice to examine the multi-dimensions of an international location strategy. It is far from sufficient to only examine the determinants of the likelihood of OFDI (Luo & Wang, 2012), since the simple location probability cannot reflect the location pattern of OFDI. A few researchers have tried to investigate the location characteristics of Chinese MNEs. Rugman (2005) and Rugman and Li (2007) discuss the interaction between FSAs and CSAs and point out that Chinese MNEs operate across a regional geographic dimension rather than a country or a global level (Rugman & Li, 2007). Pangarkar and Yuan (2009) split a full sample into broad categories between developed and developing countries, and find that Chinese firms undertake a greater degree of expansion into developed countries than into developing countries.

Table 2.3 Summary on the Theoretical Perspective on FDI location

Theoretical Approach	Publications	Basic Arguments	Implications on FDI location strategy
Product life cycle theory	(Vernon, 1966)	During a product life cycle , firm's decision to invest in a foreign country can be treated as the trade-off between direct production at home , or export to another country	When the product becomes standardized and market becomes mature, firm is inclined to establish production in low-cost countries
Internationalization process model (Uppsala model)	(Johanson & Wiedersheim-Paul, 1975); (Johanson & Vahlne, 1977)	Firm's internationalization is a process of experiential learning and incremental market commitment in foreign market	MNEs first enter countries that psychically close to their home country; and gradually move to other culturally more distant location
Matrix of firm specific advantages –country specific advantages (FSA-CSA) OLI paradigm	(Rugman, 1981); (Rugman & Li, 2007) (Dunning, 1980); (Dunning, 1988)	Motivation for firms going abroad is to exploit firm specific advantages and benefit from host country specific advantages MNEs set up production plant abroad when it has ownership advantages at home, location advantages abroad, and internalization advantages of keeping the operation within the firm	MNEs are attracted to countries that have specific benefits (e.g. natural resource, labor force, cultural factors) MNEs are more likely to invest overseas in search of locational advantages
Institution-based view	(DiMaggio & Powell, 1983); (North, 1990); (Scott, 2003); (Peng, 2002); (Peng, Wang, & Jiang, 2008)	Firms' business strategies reflect the outcome of dynamic interaction between institutions and organizations Firms have to conform to prevailing rules and belief systems to gain legitimacy and survival	Countries that have favorable institutions (e.g. a strong regime of intellectual property rights protection, low level of political uncertainty and corruption) induce entry; Countries that firms could leverage their home-derived advantages (e.g. ability to deal with political risk) to expand abroad
Network-based view	(Johanson & Vahlne, 2009) (Voss, Buckley, & Cross, 2010)	Business network promote firms to internationalize by exploiting business opportunities, sharing knowledge among members and building up competitive advantages	Countries in which firms have relevant network positions induce entry
New economic geography	Krugman (1991); Venables (1996); Krugman and Venables (1995)	The emergence of large agglomeration depend on increasing returns to scale and transportation cost, and emphasizes linkage between firms and suppliers as well as between firms and consumers	MNEs tend to locate in the regions where they can benefit from agglomeration externalities

Table 2.4 Empirical Literatures on Location Strategy of Chinese MNEs

Empirical studies	Dependent variable	Independent variable	Sampling	Analytical method	Key moderator or control	Major findings	Theoretical perspective
Buckley et al. (2007)	Annual flow of Chinese OFDI	Host market characteristics; Natural resource; Asset seeking; Political risk; Cultural proximity to China; Policy liberalization	Chinese FDI flows to 49 host countries including 22 OECD membership and 27 non-OECD countries (1984-2001)	Random effects (RE) estimation	Exchange rate; Host country inflation rate; Exports; Imports; Geographic distance from China; Openness to FDI	Chinese OFDI is positively related with absolute host market size, cultural proximity, policy liberalization, political risk, Chinese exports to host country and host country inflation rate; and it is negatively related with Chinese imports from host country. And host natural resource, asset seeking motivation, exchange rate, geographic distance and openness are found no significance.	OLI paradigm; Institution-based view
Cheng and Ma (2008)	Annual flow of Chinese FDI to host country Stock of Chinese FDI in host country	Host market size; Geographic distance; Use of Chinese language; Sharing common border with China; Host regional type (landlocked or island)	Chinese MNEs in 90 host countries (2003-2006) Chinese MNEs in 125 host countries (2003-2006)	Gravity equation estimation	None	Annual flows of Chinese FDI to host country is positively related with absolute host market size, common board sharing and use of Chinese language, and it is negatively related with geographic distance and host country being a landlocked economy. Host real per capita GDP and its being an island are found to be no significant. Stocks of Chinese FDI in host country is positively related with absolute host market size, common border sharing and use of Chinese language, and it is negatively related with host real per capita GDP and host country being a landlocked economy. Geographic distance has no significant relations with stocks of Chinese OFDI.	CSA
Cheung and Qian (2009)	Stock of Chinese FDI in host country	Host market size; Host resource endowment; Host country risk;	Approved Chinese FDI flows to 31 countries including 21 developing and 10 developed countries (1991-2005)	Generalized least square (GLS) estimation	None	For developing countries, Chinese OFDI is attracted by host country cheap labor and natural resources. Both of host market size and host-country risk are found to be insignificant. For developed markets, Chinese ODI is attracted by host market size and host resource endowment, and it is not sensitive to the host-country risk.	CSA

Empirical studies	Dependent variable	Independent variable	Sampling	Analytical method	Key moderator or control	Major findings	Theoretical perspective
Kolstad and Wiig (2009)	Annual flow of Chinese OFDI	Host institutions; Host country natural resources; Institutions * natural resources	Chinese FDI flow to 142 host countries (2003-2006)	Ordinary least square (OLS) estimation	Host country GDP; Trade; Inflation rate; Geographic distance between China and host country	<p>There is an interactive effect between host natural resources and institutions on Chinese OFDI: the worse the institution in the host country, the more is Chinese OFDI attracted by natural resources; and this attraction of resources is greater when the institution environment becomes worse.</p> <p>In addition, Chinese OFDI is positively related with host country GDP in rich countries, while other control variables are found to be insignificant.</p>	OLI paradigm; CSA
Yan et al. (2010)	Annual flow of Chinese OFDI	Policy support from home government; Ethnic Chinese in host country; Financial capacity of Chinese investors	730 effective OFDI transaction of Chinese MNEs (2006-2007)	Multiple regression model	Host natural resources; Host country market size; Geographic distance between China and host country; Host technological endowment; Host country openness; China's imports from host country	Chinese OFDI is positively related with the degree of state ownership control and financing capacity of investing firms; and overseas ethnic Chinese population is also positively related with trade-oriented OFDI of Chinese MNEs.	Institution-based view
Amighini et al. (2011)	The probability of location choice	Host country market size; China's exports to and imports from host country; Host natural resources; Host strategic assets endowment	613 registered Greenfield investments undertaken by Chinese MNEs to 81 countries (2003-2008)	Random effects probit model	Host inflation rate; Host political risk; Infrastructure; Geographic distance	Chinese OFDI in manufacturing sectors is driven by market scale seeking, which has the tendency to locate in host countries with large market size. The resource seeking motivation is positively relevant for Chinese OFDI in resource-intensive sectors which invest in resource-abundant countries even with high macroeconomic risks. Chinese OFDI in manufacturing and service industry both are attracted by higher R&D and human capital endowment.	OLI paradigm

Empirical studies	Dependent variable	Independent variable	Sampling	Analytical method	Key moderator or control	Major findings	Theoretical perspective
Huang and Wang (2011)	Annual flow of Chinese OFDI	China's exports to and imports from host country; Host market size; Host natural resources; Geographic distance; Common border sharing; Use of same language; Host country rule of law;	Chinese OFDI in 130 host countries (2003-2009)	Random effects (RE) estimation	None	Chinese OFDI is positively related to host raw materials, exports to host countries, board connection and use of common language; and not significantly related to market seeking motives, political risks, comparative advantages in service sector of host country, and imports from host country.	OLI paradigm
Duanmu (2012)	The probability of location choice	Host political risk and economic risk; State intervention; Exchange rate; Host natural resource endowment; Host market size; Host labor cost	194 OFDI from Jiangsu province to 32 countries (1999-2008)	Conditional logit model and nested logit model	Host corporate tax; Host unemployment rate; Geographic distance between China and host country	Sate owned MNEs are less negatively respond to political risk of host country but are positively respond to favorable exchange rate. Chinese MNEs are more attracted by market size and deterred by high labor cost in host country.	Home-country specific advantage; FSA
Kang and Jiang (2012)	Stock of Chinese FDI in host country	Host market characteristic; Host natural resource; Host labor cost; Host development level of technology and management know-how; Host economic freedom; Host political regime; FDI restriction; Cultural distance; Bilateral trade	Chinese FDI stock in eight Asian countries (4 developed and 4 developing markets) (1995-2007)	Multiple regression model	Host inflation rate	Chinese OFDI is more significantly associated with institutional variables (e.g. economic freedom, FDI restriction and cultural distance) compared to traditional economic factors. Economic factors also have influential effect on location of Chinese MNEs.	OLI paradigm; Institution-based view

Chapter 3 Conceptual Framework

The literature review in the previous chapter indicates that there are at least three major points concerning location strategy of Chinese multinationals that require further development: 1) most studies in IB and strategy research treat foreign locations undertaken by each multinational as discrete and independent rather than as an interconnected movement (Li, Guo, & Xu, 2017; Nachum & Song, 2011); 2) empirical analysis on destination of Chinese OFDI is described and conducted mostly at the country level rather than sub-national regional level; 3) much of existing research use single-item or time-invariant indices to measure home country institutional quality (Peng, Sun, Pinkham, & Chen, 2009).

Location theory (Krugman, 1991; Weber, 1929) and FDI theory (Dunning, 1980; Rugman, 1980; Vernon, 1966) are the two fundamental theoretical bases of FDI location research. Although there has been a dominance of the eclectic (OLI) paradigm and the Uppsala model as main approaches in FDI research, the institution-based view and network-based view/organization learning perspective have been increasingly applied to explain FDI location strategies of Chinese multinationals in recent years (Cui & Jiang, 2009; Li, Xia, Shapiro, & Lin, 2018; Wang, Hong, Kafouros, & Boateng, 2012). In particular, an institution-based view has become the most influential perspective in emerging market economy research (Peng & Zhou, 2005; Wright, Filatotchev, Hoskisson, & Peng, 2005). The perspectives that integrate economic geography literatures, however, has been overlooked in FDI location research in the context of IB research (McCann, 2011; McCann & Mudambi, 2004). Geographical economics discusses firm location behavior associated with spatial allocation of resources and spatial patterns of firms' economic activities resulting from such allocations (Pászto, 2020), while traditional international business research focuses on

the nature, information, and organizational aspects of the firm. Therefore, it is necessary to reconcile economic geography approach with international business theory to provide a more powerful explanation for spatial behavior of Chinese multinationals (McCann, 2011; McCann & Mudambi, 2004).

The review in the IB and strategic management literature on FDI location reveals that the majority of empirical study published focuses mainly on ‘location choice’ or is bundled with ‘location decision’, measured by the probability or the likelihood of foreign market entry into a specific country (Enright, 2009; Henisz & Delios, 2001; Quer, Claver, & Rienda, 2012), without reference to previous locations. Although some research further categorizes the destination countries into several groups based on distinct characteristics (e.g. developed country and developing country) (Luo & Wang, 2012; Pantzalis, 2001), foreign market entry is still treated as a series of discrete location decisions where each location choice is assumed to be independent of each other and whose value is evaluated only on the basis of their own attributes (Nachum & Song, 2011). Only a few of the recent studies pay attention to the interrelated choice across different locations (Li, Guo, & Xu, 2017; Lu, Liu, Wright, & Filatotchev, 2014; Zhu, Wittmann, & Peng, 2012). For example, research on sequential foreign market entry investigates the influence of prior or initial investment on subsequent market entry (Francis, Zheng, & Mukherji, 2009; Lu, Liu, Wright, & Filatotchev, 2014). Nevertheless, the effect of the total set of previous investment locations of each MNE in all countries is still ignored (Keig, Brouthers, & Marshall, 2019). From the perspective of strategic decision-making, all the subsidiaries in overseas market comprises the unique investment portfolio or investment network for each MNE, with each subsidiary as network nodes are interconnected and interdependent (Johanson, 1982; Nachum & Song, 2011; Rugman, 1980). Therefore, each international move by

an MNE is the result of deliberate and precise consideration based on all the previous locations in foreign markets.

Markowitz (1952) and Sharpe (1963) developed the notion of a portfolio choice model/portfolio theoretic approach. Inherent to this theoretical approach is that an individual or firm chooses a portfolio of investments that can trade off between expected return and potential risk. Conventional portfolio theory in the context of finance indicates that a firm may reduce its profit volatility by increasing the diversification of its product portfolio (Markowitz, 1952; Conroy, 1974, 1975; Rugman, 1976). Here, product/geographic diversification is regarded as a useful tool of reducing risk and bankruptcy costs (Lintner, 1965), while diversified firms can benefit of the stabilized overall returns caused by uncorrelated goods (Kim et al., 1989), differentiated economic conditions (Rugman, 1976) across locations where the firm operate its businesses (Song & Kang, 2019). Extension of portfolio approach and product/geographic diversification to IB and strategic management literatures, previous research has suggested that MNE can be conceptualized as a portfolio of activities in different product and/or geographic countries, with each activity contributing to the overall return of the portfolio (Lubatkin & Chatterjee, 1994; Nachum & Song, 2011; Hutzschenreuter & Matt, 2017). This is of particular relevance to my study where the focus is location activities taken by Chinese multinationals that spread across different countries or regions. Following the portfolio approach, if each location choice is considered as an individual investment in a foreign country, the bundle of foreign locations/subsidiaries of each Chinese MNE represents a portfolio of investments in overseas market. Similar to financial investments, an economic portfolio of foreign location has a relationship with expected return and associated risk. Thus, location portfolio in my study is defined as a investment portfolio or operation network in which

all the subsidiaries of each MNE across different locations is interconnected and interdependent in order to (Nachum & Song, 2011; Lin, Tan,& Chen,2017; Huang,Xie,& Wu, 2020). This notion is mainly used to describe the range and geographic configuration of entire outward activities in which each Chinese MNEs engages, which can be examined from three major aspects: geographical scope (i.e. non-home-region or home-region orientation³) (Rugman & Verbeke,2004; Rugman & Verbeke, 2008), economic development spectrum (i.e. developed-country or developing-country orientation) (Yamakawa et al,2008); and foreign agglomeration (agglomeration/clustering vs. geographically dispersion) (Krugman, 1991).

The first dimension is based on the work of Rugman and Verbeke (2004) and extends the debate of regional/global strategy into FDI location research, that is, geographical concentration of outward investment by an MNE in home region versus geographically dispersed outside home region/across broad triad regions (Banalieva & Dhanaraj, 2013; Rugman & Verbeke, 2004). The existence of inter-regional inequality in factor endowment (e.g. location-bound knowledge, tangible and intangible assets, natural resource), and inter-regional imbalance in labor and consumer markets, implies that the portfolio approach can be established in intra-region and inter-region FDI location analysis (Cromley & Hanink, 1985). Because of the significant difference in terms of economic, cultural, political and administrative systems between regions and people, products, knowledge, and capital flow are much more difficult and costly across different regions than within a home region (Nguyen, 2015; Rugman & Verbeke, 2005). In other words, the cost of doing business /liability of regional foreignness incurred by MNE expansion across different regions will increase significantly with the complexity

³ The 'region' here refers to supra-national region which is different from the term 'region' in 'subnational region' in Chapter 4

and diversity of operations increases (Qian, Li, & Rugman, 2013; Rugman & Verbeke, 2007; Rugman & Verbeke, 2005). However, this does not mean expanding across different regions cannot confer any benefits to MNE. One of the main advantages is to enable MNEs to maximize market opportunities by getting access to a wider multinational network (Yildirim & Efthyvoulou, 2018). Therefore, location portfolio is the process of building interconnected subsidiary networks within home regions or across different regions by evaluating potential benefits and risks (Greve, Ruigrok, & Georgakakis; Kudina, 2012; Nguyen, 2015).

The second dimension of location portfolio concerns the ongoing debate around developed-country versus developing-country oriented strategy. The central argument lies in that whether Chinese firms center their entire foreign operation portfolio on developing countries which have closer institutional quality and similar economic development with China, or relocate their foreign activities to developed countries that are more geographically and culturally distant locations. This aspect highlights the concentration of entire portfolio of foreign business operations within a couple of regions, that is developed country or developing country regions (Qian, 2008). Operations in different regions provide different opportunities and benefits for firms to obtain location-specific advantages. Developed countries have more advanced technology and greater resources which has attracted emerging market MNEs such as China as latecomers to seek resources and assets in order to enhance their capabilities and overcome competitive disadvantages (Child & Rodrigues, 2005; Mathews, 2002). In contrast, Chinese MNEs entering other developing countries are more driven by exploiting their existing competencies and exploit abundant low-cost production factors (Pangarkar & Yuan, 2009). Here, location portfolio refers to the reduced diversification process that concentrate entire foreign operation portfolio on developed country or on

developing country by assessing potential benefits and operational risks (Dow, Cuypers, & Ertug, 2016; Yamakawa et al., 2008).

Drawing on the economic geography perspective (Iammarino & McCann, 2013; Krugman, 1991; McCann, 2011), the third aspect of location portfolio in this study focuses on the geographic agglomeration versus geographic dispersion of Chinese foreign subsidiaries in subnational region, that is, whether Chinese MNEs will locate their foreign operation portfolio in agglomerated/cluster area or geographically dispersed across subnational region. In specific, this reflects the fact that some Chinese MNEs tend to locate several/multiple subsidiaries or industry value-added activities in the geographical cluster while other Chinese firms locate their foreign subsidiary portfolio away from cluster. It has been widely acknowledged that firms located in geographical cluster potentially have more opportunities to reap return from knowledge externalities, human capital mobility and suppliers of specialized input (Marshall, 1920); as well as better access to locally embedded information and knowledge in order to promote the legitimacy of organizations in the host country (Tan & Meyer, 2011). Some other studies argue that located within clusters can be both opportunities and challenges for firms (Alcácer, 2006; Alcácer & Chung, 2007). Benefits from geographically bounded spillovers may be offset by the counterforce of intensified competition and the risk of outward knowledge spillover in industrial agglomeration (Li & Park, 2006). Here, location portfolio is the process of establishing local business network through co-location with domestic firms or foreign firms at host markets (Johanson & Vahlne, 2009; Lamin & Livanis, 2013).

With regards to factors affecting the location portfolio of Chinese multinationals, I incorporate the elements with home country institutions, international joint venture with foreign firms and home country industrial cluster by drawing from the institution-based

view (DiMaggio & Powell, 1983; North, 1990; Peng, 2002; Peng & Pleggenkuhle - Miles, 2009; Peng, Wang, & Jiang, 2008; Scott, 1995) and network-based (Johanson & Vahlne, 1977; Johanson & Vahlne, 2009) organizational learning perspective (Levitt & March, 1988). Following Hobdari, Gammeltoft, Li and Meyer (2017), the role of home country institutions in location portfolio of Chinese MNEs will be examined based on three key aspects, that is, state-ownership, sub-national institutional diversity and institutional evolution.

Firstly, home country institutions shape ownership structure of the firm (Hobdari, Gammeltoft, Li, & Meyer, 2017). State ownership has given government and its relevant agencies a particular mandate or freedom to influence strategic behaviors of multinationals directly or indirectly. Although Chinese firms have been granted a great level of autonomy since China's economic reform and opening up 40 years ago, the Chinese government still maintains a tight control through holding several listed companies (Delios, Wu, & Zhou, 2006; Morck, Yeung, & Zhao, 2008). It has been recognized that firms with the majority of ownership in the hands of the state are usually oriented towards achieving political objectives not just maximizing economic profit (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Kolstad & Wiig, 2012). In this sense, firms that are partially or fully owned by entities of the state would present some unique characteristics in their foreign location portfolio.

Secondly, home country institutions increase economic efficiency of markets through improving transparency and reducing uncertainty, thus enabling firms embedded in this contextual environment to accumulate strategic resources and build competitive capabilities (Hobdari, Gammeltoft, Li, & Meyer, 2017). However, the development of market-oriented institutions varies significantly among China's administrative regions and provinces (Boisot & Meyer, 2008; Du, Lu, & Tao, 2008; Lu

& Tao, 2009). Specifically, the regional diversity of institutions is mainly manifested in the degree of divergence in economic liberalization, effectiveness of legal systems, the development of law and legal enforcement and so on (Chen, Li, & Shapiro, 2015; Liu, Lu, & Chizema, 2014; Ma, Ding, & Yuan, 2016). Even if regulatory requirements such as commercial laws and business regulations are to be implemented on a national basis, the final enforcement of these rules still differ remarkably among Chinese provinces due to disparities in economic conditions, policy initiative, infrastructure endowment and cultural norms (Chen, Li, & Shapiro, 2015). Institutional differences in sub-national region may induce heterogeneous location portfolio of Chinese multinationals when they go abroad (Chen, Li, & Shapiro, 2015; Yang, 2018).

Thirdly, Chinese institutions have been undergoing a profound change during the past four decades, which has an inevitable impact on each firm that is embedded in this environment (Cuervo-Cazurra & Dau, 2009; Dau, 2012; Luo, Xue, & Han, 2010). In regards to outward direct investment, the most prominent changes in policy have been market liberalization, privatization, and OFDI promotion with the initiation of ‘going global’ and the ‘Belt and Road Initiative’ policy. Each of these is expected to have direct effect on the location portfolio of Chinese multinationals (Ahlstrom & Bruton, 2010; Luo, Xue, & Han, 2010).

Considering the above arguments, I propose a conceptual framework (Figure 3.1) to analyze the location portfolio of Chinese MNEs in terms of home region/non-home region oriented, developed/developing countries oriented and foreign agglomeration; and to investigate the extent to which existing location portfolio is decided by home country institutions and business networks. First, I argue that the impacts of home country institutions on the location portfolio of Chinese MNEs depend upon three aspects, that is, ownership structure, sub-national institutional heterogeneity, and

institutional evolution over time. Second, I explore how business networks from the home country affect the location portfolio of Chinese MNEs. Specifically, I focus on two types, the international joint venture of Chinese firms with foreign firms, and the network that are embedded within home country industrial clusters. Third, I explain how the location portfolio of Chinese MNEs affects their subsequent new entry.

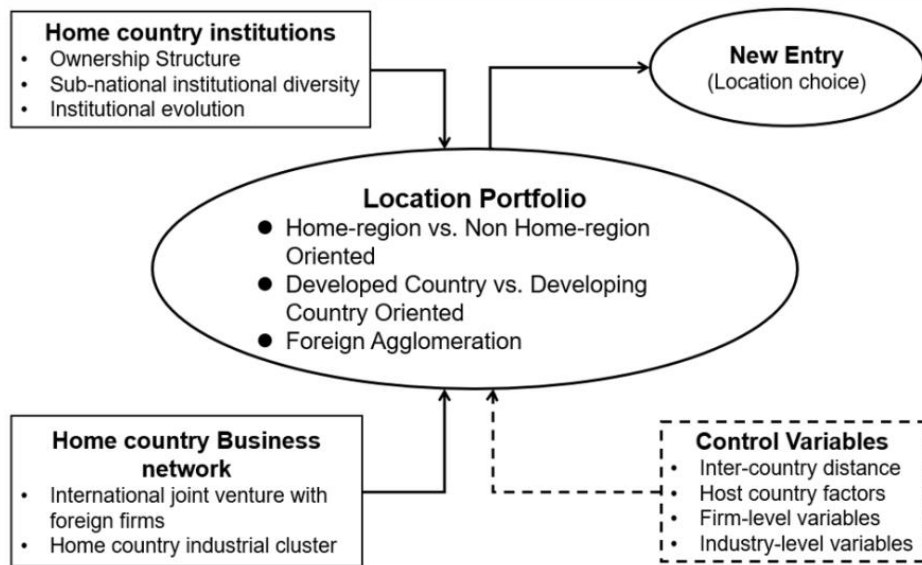


Figure 3.1 Conceptual Framework

Chapter 4 Home Country Institutions, Sino-foreign joint venture and Location Strategies of Chinese Multinationals

4.1 Introduction

The OFDI of Chinese firms has increasingly drawn the attention of IB scholars (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Child & Rodrigues, 2005; Luo & Wang, 2012; Wang, Hong, Kafouros, & Boateng, 2012). The extant studies attempt to address Chinese OFDI's motives (e.g., strategic assets-seeking, natural resource-seeking) (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Kolstad & Wiig, 2012), their establishment modes (e.g., acquisition, greenfield investment, joint venture) (Cui & Jiang, 2010; Cui & Jiang, 2009) and performance implications (Pangarkar & Yuan, 2009). In these studies, researchers often emphasize the distinct role of the home country institutional environment in the OFDI of Chinese firms (Child & Rodrigues, 2005; Lu, Liu, & Wang, 2011). Some of them have clearly pointed out that home country institutions have been largely overlooked in the received IB theories such as Dunning's OLI paradigm, internalization theory and Uppsala's staged internationalization theory because of, *inter alia*, their essential acceptance of the rationality assumption and the lack of emphasis on the interplay between firms and institutional environments (Child & Rodrigues, 2005; Mathews, 2006).

Despite the growing literature on OFDI of Chinese firms, little research has been conducted on the location strategy of Chinese multinational enterprises (MNEs), which transcends discrete location choices *per se* (Deng, 2012; Duanmu, 2012; Luo & Wang, 2012). Real world examples demonstrate the variance of location strategies of Chinese MNEs and trigger such questions as: Why has China National Petroleum Corporation (CNPC) invested heavily in African countries while Huawei has had a significant global

presence? Why did Haier decide to enter the US and Japan in the early stage of its international expansion when the other Chinese manufacturers of home appliances were mainly operating in China and Southeast Asia?

While the recent IB research on global and regional strategies pioneered by Rugman and Verbeke (2004) is relevant to the location strategy of MNEs, this line of research largely focuses on transaction cost economizing and internalization tenets rooted in the contexts of developed countries and attaches little importance to home country institutions, which compromises its explanatory power in the contexts of developing countries (Li, Leung, Chen, & Luo, 2012; Tsui, 2007). Along a different line, Mudambi (2008) provides an illustrative analysis of the location strategy of MNEs through the lens of knowledge intensity and management along the industry value chain. He argues that MNEs tend to choose either vertical integration or specialization on the one hand and onshore or offshoring value-added activities on the other hand (Mudambi, 2008). The above two lines of research on location strategy, however, are almost totally dependent upon economic rationale and are not adequately applicable to the emerging market MNEs.

An enhanced understanding of location strategy of MNEs in general and of emerging market MNEs is not only of theoretical relevance, but also clearly bears important practical implications. With the increasing economic integration and the rapid advance of transportation and communication technologies, location strategy has itself become a source of MNE competitive advantage because of the coherent configuration of locational assets that fit well with one another (Cantwell, 2009; Dunning, 1998; McCann & Mudambi, 2004). For Chinese MNEs (and other emerging market MNEs for that matter), a viable business location strategy could enable them to accumulate and leverage locational (i.e., country specific) advantages to overcome their

firm-specific disadvantages and establish long term competitiveness in the global arena (Luo & Tung, 2007).

This paper seeks to address three important questions in the context of OFDI of Chinese MNEs: (1) how do home country institutional environment factors (e.g., state ownership, sub-national institutional diversity, and institutional change) affect the location strategy of Chinese multinationals? (2) To what extent will the experiences gained from international joint venture have an influence on the location portfolio of Chinese firms in foreign markets? And (3) whether or not the new market entry by Chinese MNEs will break their current location portfolio in outward investment?

4.2 Theoretical Background

The institution-based view emphasizes the roles of institutions in shaping organizational behavior. It posits that a firm's strategic decision results from its dynamic interactions with the institutional environments (Peng, 2002; Peng, Wang, & Jiang, 2008). According to North (1990), institutions are defined as "the rules of the game in a society or, more formally, the humanly devised constraints that structure human interaction", and can be classified as formal and informal dimensions. Formal institutions include regulatory, political and economic rules (Peng, 2002), while informal institutions refer to codes of conduct, and norms and values embedded in culture and ideology (North, 1990). In a similar vein, Scott (1995) describes institutions as "regulative, normative, and cognitive structures and activities that provide stability and meaning to social behavior", in which the regulative institution is roughly equivalent to formal institutions and the normative and cognitive dimensions are similar to informal institutions (Scott, 1995). From the institutional perspective, institutional environments shape economic activities by setting the rules of the game as the basis for production, exchange and distribution (Davis & North, 1971). Firms need to strictly

follow such rules and belief systems that have been widely accepted in the external environment, in order to ensure survival and gain legitimacy in business operations (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). In other words, organizations are motivated to establish and maintain their legitimacy by becoming isomorphic with their environments (Yiu & Makino, 2002).

Institutions governing firm strategies are deeply rooted and differ across countries (Capron & Guillén, 2009). While host-country institutions are critically important, how home-country institutions are implemented is also a key concern directly influencing focal multinational enterprises (Cuervo-Cazurra, 2011; Cuervo - Cazurra, 2012; Peng, 2012). This stream of study may be more pronounced for multinational enterprises embedded in emerging markets, such as China, which are characterized by underdeveloped formal institutions often resulting in an unstable environment and creating an institutional void (Puffer, McCarthy, & Boisot, 2010). The emphasis on a home country side effect is also consistent with the insights from institutional imprinting, which refers to the propensity that home country institutions affect organizational behavior in cross-border organizational practices (Mezias, 1990). The home country influences the way in which its corporations develop and leverage organizational capabilities in other countries (Holburn & Zelner, 2008; Wells Jr, 1994; Wells Jr, 1993). Home-country institutions such as technological or contractual norms both have the same level of influences on how firms compete locally and overseas (Delios & Henisz, 2003; Kriauciunas & Kale, 2006).

4.3 Conceptual Framework and Hypotheses

4.3.1 Location strategy

Following (Nachum & Song, 2011), foreign location strategy in this study is conceptualized as interconnected choices across different locations, and a unique

investment portfolio or network with all the subsidiaries in a foreign market (Hutzschenreuter & Matt, 2017; Keig, Brouthers, & Marshall, 2019). Therefore, each international move by an MNE is the result of deliberate and precise consideration based on all the previous locations in foreign markets. I examine the location portfolio of Chinese MNEs in terms of geographical scope (i.e., non-home-region or home-region orientation) and economic development spectrum (i.e., developed or developing country orientation).

The concept of MNEs' geographic scope is based on the heated debate surrounding globalization and regionalization, which focuses on whether an MNE has a global or regional portfolio of assets or operations (Li & Li, 2007; Rugman & Verbeke, 2008; Rugman & Verbeke, 2005). The process model of internationalization posits that MNEs internationalize incrementally from the familiar and proximate to new and distant locations, increasing their commitment to foreign locations in small steps as they learn about these new markets. This minimizes the uncertainty inherent in unfamiliar markets, and the complexity of engaging with partners embedded in local networks (Barkema, Bell, & Pennings, 1996; Benito & Gripsrud, 1992; Johanson & Vahlne, 1977; Johanson & Vahlne, 2009). Hence MNEs start as home-regionally oriented and gradually adjust their international expansion toward more distant global locations. Rugman and Verbeke (2000, 2004) formalized the regionalization hypothesis based on their observation on the geographic distribution of sales and assets of large firms in the world (Rugman & Verbeke, 2000; Rugman & Verbeke, 2004). They demonstrated that few of these firms operate globally, which is defined as having at least 20 percent of their activities in each of three broad triad regions of EU, North America and Asia Pacific. In contrast, the great majority of their sales or assets of these large firms is within their home-region. This is confirmed by subsequent empirical evidence that most of the

international activities of MNEs are conducted at an intra-regional level rather than an inter-regional one (Oh & Rugman, 2006; Rugman, Yip, & Jayaratne, 2008; Rugman & Collinson, 2005). In contrast, the globalists' arguments indicate the organizations are being encouraged to expand their business into the global market due to the increasing globalization (Levitt, 1983). By criticizing the regionalization scholars concerning their regional partition (Flores & Aguilera, 2007; Stevens & Bird, 2004), the globalization scholars argue it is possible to make the conclusion that firms operate across three broad regions of the world if the internal attributes of firm are examined rather than simply focusing on economic revenues (Peng & Pleggenkuhle - Miles, 2009; Stevens & Bird, 2004).

The second direction of this study is to examine whether an MNE's location strategy is oriented toward developed countries or developing countries from the perspective of economic development spectrum (Duanmu, 2012; Galan, Gonzalez-Benito, & Zuñiga-Vincente, 2007; Luo & Wang, 2012; Yuan & Pangarkar, 2010). Existing studies argue that firms are driven by different motivations to enter developed as opposed to developing countries. (Dunning, 1998)'s typology of FDI motivation shows that FDI led by resource-seeking and efficiency-seeking investments are mostly acted in developing countries while investment for seeking strategic assets are usually conducted in developed-country markets. Similarly, (Makino, Lau, & Yeh, 2002) indicate that exploitation-oriented investments mostly occur in less developed countries or in a downstream direction in comparison with exploration-oriented investments (Chen & Yeh, 2012). Emerging market MNEs with internally-endowed competitive advantages such as low-cost manufacturing expertise are motivated to undertake outward investment into developing countries and into the ownership of projects involving natural resource extraction or the manufacture of low technology products

for mass markets. However, those MNEs seeking opportunities for organizational learning are more expected to pursue OFDI in developed countries such as the US, Canada or Western Europe to overcome their competitive disadvantages.

4.3.2 The effect of home country institutions on foreign location portfolio

State ownership and location portfolio

The state ownership enables firms to get access to preferential treatment from the government (e.g., bank loans at a low rate) on one hand, and pursue multiple objectives on behalf of the state to serve national interests on the other. As a result, Chinese firms that enjoy better access to financial support are less susceptible to high business risks and costs in foreign markets (Duanmu, 2012). Moreover, large state-owned enterprises with a high level of state involvement are still the backbone of the Chinese economy and are mandated to improve overall economic competitiveness in the global arena. Driven by the national goals in enhancing global competitiveness, they are more likely to pursue a globally-oriented location portfolio to seek business opportunities abroad. In contrast, firms with low level of state ownership, with rare exceptions, tend to be more cautious and conservative in their international expansion.

Furthermore, due to the frequent administrative interference of government agencies, Chinese firms may be more adept at coping with burdensome procedures, nontransparent systems, and unstable policies in foreign environments (Duanmu, 2012). Such advantages are desirable for firms to operate in harsh institutional environments with the strong support of the home government (Cuervo - Cazorra, 2012; Ramamurti, 2008). Cuervo-Cazorra and Genc (2008) argue similarly that the capabilities to deal with inefficient institutional environments make Chinese firms compete successfully in less-developed markets (Cuervo-Cazorra & Genc, 2008). Thus, Chinese firms with higher level of state ownership have a higher propensity to venture into other

developing countries that also have less sophisticated institutions and higher state intervention (Cuervo - Cazorra, 2012; Luo & Wang, 2012).

Furthermore, Chinese firms are more embedded within informal institutional structures. Due to historically underdeveloped home institutional environments in China in terms of precarious laws and regulations, opaque policies, and frequent state intervention and corruption, the decision-makers of Chinese MNEs in general tend to maintain a close relationship with government officials in order to increase the firms' survival (Peng, Wang, & Jiang, 2008). This kind of political Guanxi with government officials is seen as a critical competitive resource for generating new business and reducing transaction costs under harsh conditions. At the same time, the ability to develop informal relationships with the government can be leveraged in other countries with underdeveloped formal institutions. Thus, frequent state involvement may help firms adapt in other emerging or developing countries to exploit their capabilities of dealing with informal institutions.

***Hypothesis 1:** The Chinese MNEs with a higher degree of state-owned shares are more likely to engage in (a) non-home-region oriented strategy or (b) developing-country oriented strategy within their current location portfolios.*

Sub-national institutions and location portfolio

As a transition economy moving from a power-based planned economy to a rule-based market economy, the institutional system in China is still not fully developed nationwide, and varies significantly across different sub-national regions (Chen, Li, & Shapiro, 2015; Du, Lu, & Tao, 2008; Yang, 2018). From the standpoint of institution-based theory, this institutional development disparity among regions would lead to the variations in organizations' strategic responses/strategies of individual organizations that are embedded within different subnational regions (Kogut & Zander, 1993; Meyer

& Rowan, 1977). Previous studies on the location strategy of Chinese MNEs have investigated the role of home country institutions, but there are very few studies that take the element of institutional heterogeneity across regions into consideration (Meyer & Nguyen, 2005). It has been recognized that subnational regions in large countries tend to build their own institutional systems that are distinct from other regions, which is more prominent in emerging market contexts such as China (Li, Vertinsky, & Zhang, 2013; Sethi, Judge, & Sun, 2011).

For example, the efficiency of the enforcement of central and local business laws and regulations differ greatly among regions. According to World Bank's (2008) report *Doing Business in China*, the degree of the efficiency of courts to resolve business disputes varies significantly across regions (Du, Lu, & Tao, 2008). For example, in coastal cities, it takes an average of 230 days to resolve an uncomplicated commercial dispute, whereas the corresponding number for Northeastern China is 363 days. Cole, Elliott and Zhang (2009) found that the rate of investigation of economic corruption cases was about two times as high in Tianjin and Heilongjiang as in western provinces such as Gansu and Sichuan. This illustrates not only the provincial differences in effectiveness and efficiency in enforcing the law, but also the degree of transparency in the enforcement of regulations and laws (Cole, Elliott, & Zhang, 2009).

Firms from subnational regions with low levels of governance may accumulate institutional advantages and possess /institution-embedded learning when it comes to dealing with harsh environments (Cuervo-Cazurra, Luo, Ramamurti, & Ang, 2018; Ma, Ding, & Yuan, 2016). For instance, firms that develop capabilities in exploiting institutional advantages can take advantage of informal social network/*guanxi* to establish connections with government and other stakeholders and cope with different kinds of uncertain situations in relatively opaque institutional environments (Hu & Cui,

2014). In addition, firms that survive in or originate from environments with high levels of corruption may not be discouraged by host country corruption, but may be attracted by or even actively seek those foreign markets with high level of corruption (Cuervo-Cazurra, 2006). This is because only in the similar host institutional context, the experiences of use of bribery/illegal payments that have been developed by MNEs from exposure to weak institutions in the home region could generate a strong institutional learning effect (Cuervo-Cazurra, Gaur, & Singh, 2019). Chinese firms from institutionally less developed regions may be more dependent upon non-market mechanisms to reduce transaction costs or to obtain privileges (Li, Vertinsky, & Zhang, 2013; Pangarkar & Yuan, 2009), but may be less able to adapt to well-developed institutional environments in developed countries. When investing in a host country with well-established institutions, the institutional distance seriously deters the transfer of knowledge and practice between subsidiaries, thus undermining the effect of institutional learning and organizational adaptation (Xu & Shenkar, 2002).

In contrast, Chinese firms from the regions that have more-developed institutions may be more accustomed to competitive markets, and possess better knowledge about market-based mechanisms. In addition, the institutionally more advanced region itself tends to be more attractive as a location to foreign investments (Li & Park, 2006). The higher ratio of inward FDI not only helps to promote economic growth but also benefits Chinese firms in learning advanced technologies and managerial experiences. This likely increases the confidence of Chinese firms from those regions to enter institutionally better developed and distant markets (i.e., outside the home region market). Over time, there is a reinforcing isomorphic effect as firms in these developed areas witness their peers achieving the global presence which they seek to emulate and surpass.

Based on the above arguments, I expect that:

***Hypothesis 2a:** Chinese multinationals that originate from sub-national regions with weaker institutions are more likely to enter developing countries within their current location portfolio; while Chinese multinationals from stronger institutional regions are more likely to target developed countries when they go overseas.*

Exposure to weak institutions also helps firms build capabilities in expansion into more widely markets because of their superior understanding of institutions (Cuervo-Cazurra, Luo, Ramamurti, & Ang, 2018). Del Sol and Kogan (2007) argued that the same institutional learning gained from exposure to weak institutions can enable firms to expand into a wider diversity of countries as they have gained experience in managing institutional uncertainty at home that can be useful for dealing with the variations in institutions across multiple countries (Del Sol & Kogan, 2007). Cuervo-Cazurra, Ciravegna, Melgarejo and Lopez (2018) holding the similar view suggest that firms embedded in regions characterized by high uncertainty and unsophisticated market have developed uncertainty management capabilities that can better deal with the challenges of expanding outside the home region (Cuervo-Cazurra, Ciravegna, Melgarejo, & Lopez, 2018). Firms that conduct investment in the nearby region only experience a similar learning process with that in home markets, while firms that internationalize beyond their home region can have the opportunities to experience a different learning process in a developed context or in the context of similar levels of uncertainty (Cuervo-Cazurra, Luo, Ramamurti, & Ang, 2018).

***Hypothesis 2b:** Chinese multinationals from sub-national regions with weaker institutions are more likely to follow non-home-region orientation in current location portfolio than firms from stronger institutional regions.*

Institutional instability and location portfolio

China has experienced significant changes in its institutional logic towards OFDI over the last forty years (Buckley, Cross, Tan, Xin, & Voss, 2008; Luo, Xue, & Han, 2010). The institutional evolution along with the economic reform has a great influence on the location portfolio of Chinese MNEs (Kim, Delios, & Xu, 2010). In regards to outward direct investment, the most prominent changes in policy have been market liberalization, privatization, and OFDI promotion with the initiation of ‘going global’ and ‘Belt and Road Initiative’.

The stable improvement in institutional environments could send a positive signal to local firms about the credibility of the market reform, while market-oriented reform that cannot be sustainable or changes irregularly would give negative signals and discourage investment in locations with high uncertainty and low predictability (Stucchi, Pedersen, & Kumar, 2015; Wu & Chen, 2014). Fast changing and unstable institutional arrangements result in asymmetry in vertical development of market institutions, and cause turbulence of business environment (Farashahi & Hafsi, 2009). A highly volatile or dynamic institutional environment involves a great deal of instability that inhibits firms’ ability to predict the trajectory of institutional changes (Li, Lin, & Arya, 2008). Moreover, irregular and incoherent institutional change will increase environmental uncertainty and the degree of information asymmetry between firm and market participants, which makes it difficult for firms to avoid operational risk and sustain profitability (Farashahi & Hafsi, 2009). Under these circumstances, firms may find it hard to evaluate market opportunities due to the challenges in monitoring accurate market information. On one hand, unstable institutional change requires firms to constantly adjust their strategic decisions to adapt to the market turbulence (Bodlaj & Čater, 2019). Operating in a changing institutional environment allows and forces firms to become more adaptable and responsive to institutional processes, which

facilitates their internationalization into different institutional environments (Dau, 2012).

On the other hand, an institution characterized by great uncertainties is not attractive to foreign firms being actively investing in China because operating in such environment is a costly and frustrating process (Wu & Chen, 2014). Thus, Chinese MNEs are unable to accumulate resources and experience in their home country through competing or collaborating with foreign firms. As a result, Chinese firms are less likely to identify more business opportunities in global market and may be less motivated to invest in advanced markets.

Based on above argument, I propose that:

***Hypothesis 3:** The greater the institutional instability in the home country, the more likely for Chinese MNEs to follow (a) non-home-region orientation, and (b) developing-country orientation in their current location portfolio.*

4.3.3 Sino-foreign joint venture in China and location portfolio

Chinese firms see domestic joint venture with foreign investors as an effective way to access knowledge and international experience prior to their investing abroad (Child & Rodrigues, 2005)). Although the firms could gain international experience in several ways, the *learning and linkage* effect by joint venture (JV) partnership is much stronger as a result of the common interest and close relationship ties among indigenous firms and foreign partners, which seem to be the harbinger of foreign market entry (Gu & Lu, 2011; Yang, Sun, Lin, & Peng, 2011).

Collaborating with foreign partners, especially with those from more advanced countries, facilitates the transfer of superior technological knowledge as well as managerial capabilities (Gu & Lu, 2011). Much of the literature has confirmed that compared with their local counterparts, Chinese firms that have joint venture

experiences with foreign investors have superiority in upgrading their own technological base by sharing R&D assets, and have better distribution, human capital, and other resources (Barkema, Bell, & Pennings, 1996; Sirmon & Lane, 2004). Indeed, such strengthening of firm-specific advantages enables firms not only to enhance the capabilities to engage in OFDI, but also motivates the firm to get more deeply involved in international markets (Gu & Lu, 2011; Luo, Zhao, Wang, & Xi, 2011; Solberg & Durrieu, 2006). Particularly, it is evident that the close linkages with developed market firms encourages indigenous firms and increases their confidence in entering developed countries where they would generally be subject to double disadvantages (Bhaumik & Driffield, 2011; Thomas, Eden, Hitt, & Miller, 2007). The connection helps them acquire critical information with respect to regulation and rule of law, customer preference, market competition and established business practice in developed market (Aitken & Harrison, 1994; Gu & Lu, 2011; Mariotti, Piscitello, & Elia, 2010). Furthermore, foreign partners serve as the bridging ties for indigenous firms to build local legitimacy and reputation in foreign markets (Andersson & Mattsson, 2006; Elango & Pattnaik, 2007). Foreign market entry, in terms of business networking, can be viewed as a process of establishing and strengthening its position in foreign business networks (Johanson & Vahlne, 2009; Johanson & Mattsson, 1988; Schweizer, Vahlne, & Johanson, 2010). When firms enter a new market, they may encounter the challenges of being connected with local collaborators, suppliers or customers as lack of trust and integrity. Thus, alliance with foreign firms provides a valuable mechanism for tapping into the sources of business opportunities unavailable from outside markets, which helps reduce operational costs and builds referral trust in the foreign partners' home market (Guler & Guillen, 2010; Luo, Zhao, Wang, & Xi, 2011).

Therefore, it is expected that, everything else being equal, firms that have domestic international joint venture experiences possess superior capabilities and knowledge about foreign markets, which might significantly increase their confidence and reduce the normal liability of outsiders investing in advanced countries.

***Hypothesis 4a:** The greater the experience from international joint ventures with developed country MNEs, the higher its propensity that Chinese MNEs will follow developed-country orientation in their current location portfolio.*

Chinese firms do not only benefit from knowledge about technological expertise, managerial experiences and knowledge concerning foreign markets from their international joint venture partners. The domestic international alliance also offered indigenous firms with first-hand experiences in dealing with cultural and institutional differences between countries as some of their foreign partners were from culturally and institutionally distant countries.

Cultural uncertainty is one of major costs of doing business suffered by MNEs in a foreign country (Kogut & Singh, 1988). A large body of literature has documented that the cultural distance can have a negative effect on MNE's location (Johanson & Vahlne, 1977). Without related prior experiential knowledge that can reduce cultural uncertainty, firms may be hampered when entering culturally dissimilar host countries (Benito & Gripsrud, 1992; Davidson, 1980). Joining with international alliance with foreign partners would provide an effective channel for firms to eliminate the negative effect of cultural uncertainty or cultural distance. If firms do obtain the knowledge concerning cross-cultural experiences through their domestic collaborations, then the competencies of coping with perceived distance between the home and host countries should be increased, which would encourage firms' entry into culturally distant/high-distance countries (Miller, Thomas, Eden, & Hitt, 2008; Yenyurt, Townsend, Cavusgil, &

Ghauri, 2009). Findings by Delios and Henisz (2003) further support that firms that have international inter-cultural experience may be less sensitive to market uncertainties and high degree of risk. The MNE's geographic scope would be affected by the ability of firm-specific advantages to overcome cultural and institutional distance between home and host countries (Verbeke & Kano, 2012).

Considering individual alliances with culturally distant experiences provide a cumulative learning effect, it can be postulated that firms which have greater experience in dealing with culturally diverse partner are more likely to have a competitive global advantage.

***Hypothesis 4b:** The greater the number of (the diversified) international joint venture with non-home-region firms at home country, the more likely the Chinese MNEs will follow non-home-region orientation in their current location portfolio.*

4.3.4 New market entry, location portfolio and institutional instability

The decision-making process is influenced both by historical factor of organization and cognitive structure of decision makers. Historical factor is an important component in shaping organization institutional environment. Due to the path dependence on the environment, the decision makers embedded in the institutions tend to choose the strategy that has been adopted in the history of organization. On the other hand, strategic decisions in foreign markets are subject to the cognitive maps of organizational decision makers (Scott, 2001). The cognitive schema of decision makers is based on their perception of the reality. This is part of the process whereby organizations interpret and make sense of the world (Ang, Benischke & Doh, 2014). As a result, decision-makers often limit their solutions for complex situations to options with a high level of legitimacy such as the strategic choices adopted frequently by previous investment, especially in the face of high uncertainty and complexity (Meyer & Rowan, 1977).

An organization often faces considerable uncertainty about investment such as the policy uncertainty in host country when making international location strategy. Each type of uncertainty is indeed a serious challenge for foreign investors especially for inexperienced firms (Henisz & Delio, 2001). In such context, the chances of making a successful investment will decline sharply if the managers adopt the strategy that has never used before. Hence, the decision-makers will tend to select the practice or behavior that has been implemented in the same or similar situation. The more commonly a practice or behavior is used, the more likely this practice will be institutionalized gradually and being legitimized by the internal stakeholders (Lu,2002).

In the case of Chinese MNEs, after experiencing several major investments in developed countries or outside of home-region countries, Chinese firms will gradually set up the strategic direction toward how to invest in certain areas (Lu,2002; Yiu & Makino,2002; Swoboda et al., 2015). Due to the constraints of fixed path, the decision makers and internal stakeholders are often more inclined to accept the location strategy toward developed countries. Secondly, Chinese firms can accumulate valuable knowledge and information required for successful expansion with the growing experiences in certain overseas markets. The knowledge that obtained from prior investments especially from major foreign projects is much easier transferred and may be more applicable within the same or similar context (Thomas, Eden, Hitt & Miller, 2007), which then makes prior major markets more attractive places for Chinese firms in their next subsequent entry. Lastly, Chinese firms are encouraged by Chinese government and other external stakeholders to expand outside home region or developed countries with the goal of accessing strategic asset, such as advanced technologies and managerial experiences. To allocate their operation globally dispersed will help establish legitimacy at home country. At the same time, the presence in global

market signals high competences and capabilities to important resource providers, such as home country governments, investors, and consumer in host country (Yamakawa et al., 2008).

Hypothesis 5a: The prior location portfolio is negatively associated with the likelihood of Chinese multinationals entering the new market in their subsequent investment.

Entering new markets is a challenging and risky task due to different institutional and cultural environments that may differ considerably from that in which the firm has previously invested, which would increase the costs of deploying appropriate legitimating strategies to counter institutional constraints (Eriksson, Johanson, Majkgård, & Sharma, 2000; Eriksson, Johanson, Majkgård, & Sharma, 2015; Lu & Beamish, 2001). The new market entry is also likely to present additional complexities as firms' prior accumulated capabilities and experiences may not be applicable in an entirely new market (Cuervo-Cazurra, Maloney, & Manrakhan, 2007). The success of entry depends on replication of the firm's existing resources and capabilities (Helfat & Lieberman, 2002). However, entering new markets often requires building or acquiring new resources, because firms lack appropriate complementary resources to operate in the new market (Cuervo-Cazurra, Maloney, & Manrakhan, 2007; Johanson & Vahlne, 1977). First time investments in new foreign countries, particularly if they are in new cultural blocks, are more innovative from a strategic perspective (Barkema & Shvyrkov, 2007).

Although investing in a new foreign market is a high-risk strategic decision, it is still possible that many Chinese multinationals may seek new opportunities in an entirely new market during an institutional transition period, especially when new policies are initiated by the central government (Kim, Kim, & Hoskisson, 2010). Rapid

institutional change in China requires Chinese firms to develop sensitivity to the subtle signals and develop the ability to adjust existing practice rapidly in order to gain legitimacy and increase their survival capabilities in the home market (Feinberg, Hill, & Darendeli, 2015). For example, to comply with the ‘Belt and Road Initiative’ (BRI) that the Chinese central government launched in 2013, more and more Chinese firms expanded their business in countries along BRI, such as Kazakhstan, Indonesia and Russia. Therefore, adopting new practices and also the probability of entering new markets can be seen as a strategic response for Chinese firms to the radical change in their domestic institutional environment. Thus, it is expected that:

***Hypothesis 5b:** The greater the institutional instability in the home country, the more likely for Chinese multinationals to break the current location portfolio and enter a new foreign market in their subsequent investment.*

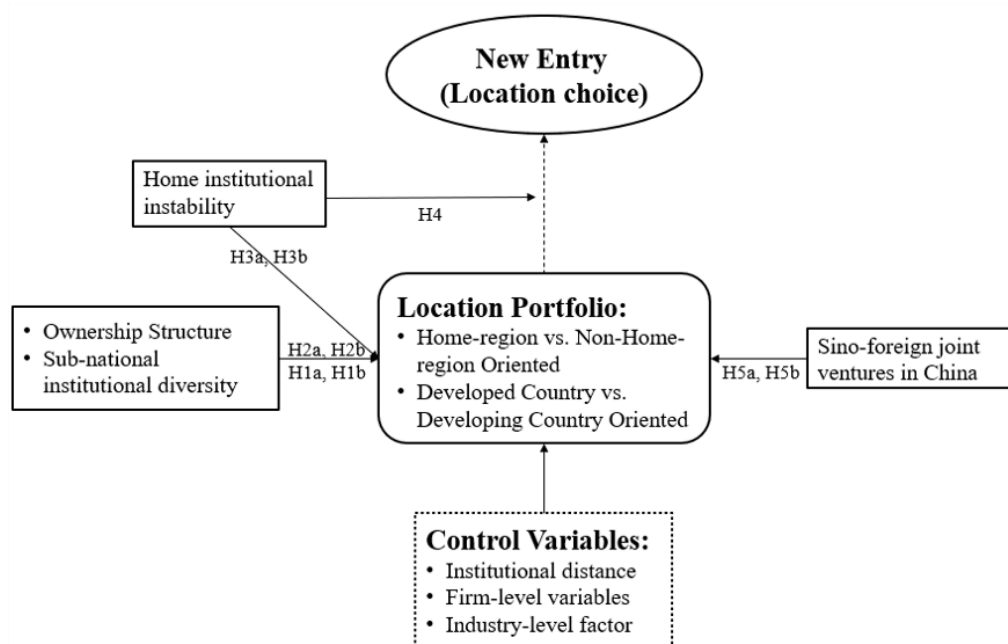


Figure 4.1 Analytical Framework for the Empirical Study I

4.4 Research Methodology

Data collection and Sampling

The initial data source is the ‘List of approved OFDI projects’ published on the official website of the Department of Outward Investment and Economic Cooperation of MOFCOM. This database includes the majority of Chinese outward investments that had been approved since the early 1980s when the government promulgated the first OFDI policy. The database contains the names of investing firms and foreign affiliates, the location of relevant investment, the approval date by Chinese government, registration date in a foreign country (if applicable) and business scope of foreign affiliates etc.

I extracted detailed information about foreign subsidiaries such as location, registered capital, equity owned by the parent firm and nature of business from the annual reports of Chinese listed firms which have made OFDIs. I selected the Chinese listed firms because of their relatively more transparent information and significant contribution to the Chinese OFDI stocks (Cui & Jiang, 2010). The annual reports of Chinese listed firms are regarded as reliable and useful data sources for analyzing Chinese firms’ OFDI (Ramasamy, Yeung, & Laforet, 2012; Yuan & Pangarkar, 2010).

Overall, the sample includes all OFDI made by Chinese listed companies (from the mainland) from 1999 to 2018. Put another way, all the Chinese firms that have made at least one OFDI (with at least 10% of ownership in a foreign subsidiary) in the countries/regions outside mainland China during the observation period are considered (Yuan & Pangarkar, 2010). Outward investment in tax havens including HongKong, Singapore, Virgin Island and Cayman Island are excluded from the full sample, because OFDI from China to these locations is most likely to be motivated by reducing the global tax burdens instead of corporate strategic considerations (Deng, Yan, & Sun, 2019; Jones & Temouri, 2016; Lu, Liu, Wright, & Filatotchev, 2014). The final dataset contains 28181 firm-year observations for 1585 Chinese firms from 1999 to 2018.

Measurements

Dependent Variables

Non-Home-Region Orientation There are no widely adopted indices to measure home –region orientation versus non-home-region orientation, though the ratio of rest of home-region sales to foreign sales is often used as a proxy in existing studies (Banalieva & Dhanaraj, 2013). I try to operationalize non-home-region orientation by referring to the approach of Makhija, Kim and Williamson (1997) in measuring the level of international linkages of different industries (Makhija, Kim, & Williamson, 1997). The formula is as follows:

$$NonHomeRegionOrien = \left[\frac{FDI_{r2} + FDI_{r3}}{Total} \right] * \left[\frac{FDI_{r2} + FDI_{r3}}{|FDI_{r2} - FDI_{i3}| + 1} \right]$$

I focus on geographic distribution of foreign subsidiaries rather than the indicator of sales to measure non-home-region orientation (Li & Li, 2007). Following the triad classification of Rugman and Verbeke (2004), home region (i.e., Asia-Pacific) is labeled as region1 (r1), Europe (combined with Africa and the Middle East) as region2 (r2) and America as region3 (r3). Non-home-region orientation is measured by multiplying the ratio of total foreign subsidiaries outside of the home region and the degree of balanced distribution between region2 and region3. The higher the value is, the greater the Chinese MNE's non-home-region orientation and the lower its home-region orientation.

Developed-country Orientation is measured by the ratio of the number of subsidiaries in developed countries over the total number of foreign subsidiaries (Luo & Wang, 2012; Pantzalis, 2001). According to the IMF (2014) standard, 34 countries and regions are classified into advanced economies including Taiwan and Macau. The remaining countries are grouped into developing economies. The ratio ranges from 0-1

with 0 standing for total developing country orientation and 1 for total developed country orientation.

New market entry is a dummy variable, which equals 1 if the sampling firm conduct a new entry in a given host country which is not consistent with the prior location portfolio in a given year, and otherwise 0.

Independent Variables

State ownership Following prior research, state ownership is calculated by the percentage of equity shares owned by the Chinese government (Cui & Jiang, 2012; Li, He, Lan, & Yiu, 2012; Liu, Lu, & Chizema, 2014; Wang, Hong, Kafouros, & Wright, 2012).

Sub-national institutions This study adopts the National Economic Research Institute (NERI) index of Marketization constructed by Fan and his colleagues (2011, 2017) as measurement for institutional difference across subnational regions in China from 1998-2017 (Fan, Wang, & Zhu, 2011; Wang, Fan, & Yu, 2017). To the best of my knowledge, Fan et al.'s Marketization Index is the only comprehensive indicator which focuses on subnational institutional environments in China (Liu, Lu, & Chizema, 2014; Xu & Yang, 2014), and this index has recently been used increasingly in international business studies (Chan, Makino, & Isobe, 2010; Chen, Li, & Shapiro, 2015; Li, He, Lan, & Yiu, 2012; Liu, Lu, & Chizema, 2014; Qin, Jing, & Long, 2013; Shi, Sun, & Peng, 2012; Wu, Li, & Li, 2013; Yang & Hyland, 2012; Zhou, 2014). The NERI index captures the progress of transition and the diversity of institutional development in 31 provinces from five major aspects, and each aspect is further operationalized by several detailed sub-indices (Gao & Pan, 2010; Wang & Fan, 2004). The value of the indices for period 1998-2010 are extracted from NERI 2011 report (Fan, Wang, & Zhu, 2011), and those for the period of 2011-2017 are from the NERI

2016 report (Wang, Fan, & Yu, 2017). However, the value of indices from two reports is calculated on different year of bases, so it is unreasonable to combine these two reports directly (Yu & Wang, 2020). To maintain consistency, I adjust the value after 2009 by multiplying the original value of the index in Wang, Fan and Yu (2018)'s report with a coefficient which is the ratio of the average value between 2008 and 2009 in Fan, Wang and Zhu (2011)'s report to that of in Wang, Fan and Yu (2018)'s report. I use the aggregated value of Marketization index in estimation test.

In the robustness check, I also use four dimensions of Fan et al's (2011, 2017) Marketization index 1) the relationship between government and markets; 2) the development of product markets; 3) the development of factor markets; and 4) the development of market-intermediate institutions and the legal system.

Institutional instability Following Wu and Chen (2014), institutional instability is measured by the standard deviation of national institutional quality index over 1998-2017. The formula to compute the level of institutional instability is as follows:

$$IS = \sqrt{\frac{\sum (ID_i - \sum ID_i / I)^2}{I}}$$

Where *IS* is the level of institutional instability over the time period of 1998-2017, *ID_i* is the level of institutional quality in year *i* and *I* refers to the number of years covered.

International experience from Sino-foreign joint venture The sino-foreign joint venture refers to Chinese firms forming an equity alliance with foreign firms, and establishing subsidiaries jointly in the domestic market (Zheng, Ren, & Yan, 2013). To assess the impact of experience from international joint ventures, I calculate the total number of China-foreign joint ventures projects built up by sampling firms up to the year of the foreign market entry. Data on the number of international joint ventures is

first compiled from the SDC platinum database, and then any missing data is taken from the National Bureau of Statistics (NBS) and the annual reports of each publicly listed firm. To avoid ambiguity regarding the true country of origin of foreign partners (e.g. Hong Kong, British Virgin Island), this study excludes those joint venture projects in which the foreign partners are from offshore financial centers and tax havens (Li, Griffin, Yue, & Zhao, 2011). This is also consistent with the argument that OFDI to tax havens are tripping-round investments (Zheng, Yan, & Ren, 2016). Li et al. (2011) and Zheng et al. (2013) also employ the same dataset in their studies on foreign joint venture.

Some firms may have set up multiple joint ventures with foreign firms from the same country. In such cases, the count of joint ventures will be added up if the focal firm has already partnered with a foreign firm from the same country (Thomas, Eden, Hitt, & Miller, 2007). The final count of the number of joint ventures is transformed into its natural logarithm. And I add 10^{-9} to final count before taking the log in order to deal with the possible censoring of the data.

Control Variables

Several variables that might be associated with the location portfolio of multinationals are also controlled (Buckley & Casson, 2007; Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Filatotchev, Strange, Piesse, & Lien, 2007; Flores & Aguilera, 2007; Ramasamy, Yeung, & Laforet, 2012).

Firm size is computed with the natural logarithm transformation of total sales. Large firms benefit from a number of size-related advantages and they may find it easier to expand internationally because their economies of scale and scope contribute to the development of firm-specific capabilities that can be leveraged for international expansion (Ge & Wang, 2013; Majocchi & Strange, 2012). *Firm age* is a proxy for firm experiences that is measured as the number of years since the firm was founded - plus

one. I also control for *technological capability*, which is measured as the ratio of R&D expenditure divided by total sales (Ma, Ding, & Yuan, 2016; Milanov & Fernhaber, 2009). These data are obtained from the CSMAR database.

Institutional distance is calculated with the average institutional distance between China and host country outside the home region or in developed countries (Arregle, Miller, Hitt, & Beamish, 2016; Banalieva & Dhanaraj, 2013). *Market attractiveness* is the proxy for the average GDP growth in host country outside the home region or in developed countries.

Table 4.1 Description and Sources of Variables

Variable	Measurement	Source
<i>Dependent variables:</i>		
Non-Home-Region Orientation	$\left[\frac{FDI_{r2} + FDI_{r3}}{Total} \right] * \left[\frac{FDI_{r2} + FDI_{r3}}{ FDI_{r2} - FDI_{i3} + 1} \right]$	Construct
Developed-country Orientation	The ratio of cumulative number of firm <i>i</i> 's subsidiaries in developed countries among total foreign subsidiaries	MOFCOM, Annual report
New market entry	Equals 1 if firm <i>i</i> conducting a new entry that is not included in the previous location portfolio in a given year, otherwise 0	Annual report
<i>Independent variables:</i>		
State ownership	The share of state-owned assets in the total assets of focal firm	CSMAR
Sub-national institutions	The index of Marketization at provincial-level	NERI index*
Institutional instability	Standard deviation of national institutional quality index	NERI index*
Experience from Sino-foreign joint venture	Log of number of equity joint ventures with a foreign partner up to the year of foreign entry	SDC platinum
<i>Control variables:</i>		
Firm Age	Log of the number of years incorporation plus one	CSMAR
Firm Size	Log of total sales in each year	CSMAR
Technological capability	Ratio of R&D expenditure divided by total sales	CSMAR
Institutional distance	Average distance between China and host countries outside the home region or in developed countries	EconomicFreedom Index
Market Attractiveness	Average GDP growth in host countries	WDI

Note: * (Fan, Wang, & Zhu, 2011; Wang, Fan, & Yu, 2017)

Since the dataset is cross-pooled format, in order to capture the unobserved time effect, *year dummies* is included in the analytical model.

Research design and model specification

Step 1- Panel data with fixed effects model for location portfolio

As the dataset is an unbalanced panel, panel data model is more appropriate for data analysis than pooled OLS regression. The two basic models are specified as:

$$\begin{aligned} NHRO_{i,t} = & a_0 + a_1 * StateOwnership_{i,t-1} + a_2 * \\ & SubnationalInstitutions_{r,t-1} + a_3 * InstitutionalInstability_{t-1} + a_4 * \\ & InternationalJointVenture_{i,t-1} + a_5 * ControlVariables_{i,t-1} + e_{i,t} \end{aligned} \quad (4.1)$$

Where $NHRO_{i,t}$ denote geographic distribution of foreign subsidiaries of Chinese firm i outside home region until the year t , $StateOwnership_{i,t-1}$ is the ratio of state-owned shares in the total shares of Chinese firm i in the year $t-1$; $SubnationalInstitutions_{r,t-1}$ represent Marketization index value in province r in year $t-1$; $InstitutionalInstability_{t-1}$ denotes the degree of institutional change at the country level in year $t-1$. $InternationalJointVenture_{i,t-1}$ is the accumulated number of joint venture projects with foreign partners until the year $t-1$ for Chinese firm i .

$$\begin{aligned} DCO_{i,t} = & b_0 + b_1 * StateOwnership_{i,t-1} + b_2 * \\ & SubnationalInstitutions_{r,t-1} + b_3 * InstitutionalInstability_{t-1} + b_4 * \\ & InternationalJointVenture_{i,t-1} + b_5 * ControlVariables_{i,t-1} + e_{i,t} \end{aligned} \quad (4.2)$$

Where $DCO_{i,t}$ is the ratio of the accumulated number of foreign subsidiaries of Chinese firms i in developed countries up to the year t , all the explanatory variables lagged one year except the error term.

Estimation test is conducted to prove Hypothesis 1-4. To decide random or fixed effects model, I conducted the Hausman test that examines the hypothesis that the error term of the random effects model is not correlated with the regressors (Baum, 2006;

Wooldridge, 2002). The results reject the hypothesis, favoring the use of fixed effects models.

Table 4.2 and Table 4.3 present the descriptive statistics and correlation matrix for the all major variables. To check for potential problems associated with multi-collinearity, I analyze Variance Inflation Factors (VIF). No correlation coefficient between independent variables is greater than 0.8 and VIF are lower than cut-off point 10, thus it can be concluded that the issue of multi-collinearity problems is unlikely to be present in the regression models (Hair, Black, Babin, Anderson, & Tatham, 1998).

A potential concern of the empirical analysis in this chapter is that firms' decisions to adopt specific location strategy (i.e. non-home-region orientation, developed-country orientation) may be determined by some unobserved or omitted factors, which often result in endogeneity problem in estimation. I handle with this potential problem in the following three ways. Firstly, I used logarithmic values of the dependent variables to measure two dimensions of location strategy, that is, non-home-region orientation and developed-country orientation, which controls for the trend in geographic distribution of foreign subsidiaries over time and reduces the endogeneity problems (Keller, 2002). Secondly, I used one-year lagged values of provincial-level institutional quality index and international joint venture to predict Chinese MNE's current level of location portfolio, which aims to control for potential reverse causality in the estimation model (Granger, 1980). The purpose of this study is to test the direct effect of home institutional quality and international joint venture on Chinese MNEs' location portfolio. However, home institutional quality and international joint venture can also be influenced by MNE's location strategy. For example, when Chinese firms make more investment in developed country, the parent firm are more likely to increase technological capabilities and improve firm-specific advantages by leveraging

transferred knowledge from foreign subsidiaries, thus the motivation and benefits from engaging in international joint venture will decrease (Chen,2015). Therefore, in order to avoid the other way round effect, it is appropriate to use lagged independent variables to address the potential endogeneity problem in the estimation. Finally, I also conducted Hausman tests to evaluate the extent to which endogeneity of explanatory variables is a potential concern (Baum, 2006; Wooldridge, 2002). The lagged dependent variable is chosen as instrument variable (IV). The results do not reject the null hypothesis that the parameter estimate for the residual is zero, which suggests that endogeneity is not a problem, and allows us to use the original econometric specification.

Table 4.2 Summary and Correlation Statistics (Non-home-region vs Home-region orientation)

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9
1.Non-Home-Region orientation	0.023	0.514	1.0000								
2.State ownership	0.074	0.169	-0.0894	1.0000							
3.Sub-national institutions	10.642	2.607	0.0991	-0.2880	1.0000						
4.Institutional Instability	2.750	0.441	0.1545	-0.4838	0.5229	1.0000					
5. IJV experience	0.677	2.529	0.0868	0.0459	0.0141	-0.0247	1.0000				
6.Firm Age	16.646	6.029	0.1126	-0.2094	0.2106	0.4399	0.0020	1.0000			
7.Firm Size	2.053	1.097	0.0855	0.1674	-0.0978	-0.1040	0.3646	-0.0058	1.0000		
8.R&D expenditure	0.006	0.050	0.0244	-0.0359	0.0155	0.0557	-0.0032	0.0152	-0.0357	1.0000	
9.Institutional Distance	5.403	3.715	0.1338	-0.3653	0.4207	0.7691	-0.0398	0.3968	-0.1391	0.0503	1.0000

Table 4.3 Summary and Correlation Statistics (Developed-country vs Developing-country Orientation)

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9
1.Developed-country orientation	0.729	0.385	1.0000								
2.State ownership	0.074	0.169	-0.0536	1.0000							
3.Sub-national institutions	10.642	2.607	0.0957	-0.2880	1.0000						
4.Institutional Instability	2.750	0.441	0.0850	-0.4838	0.5229	1.0000					
5.IJV experience	0.923	2.982	0.0057	0.0588	0.0091	-0.0348	1.0000				
6.Firm Age	16.646	6.029	-0.0475	-0.2094	0.2106	0.4399	0.0144	1.0000			
7.Firm Size	2.053	1.097	-0.0238	0.1674	-0.0978	-0.1040	0.3938	-0.0058	1.0000		
8.R&D expenditure	0.006	0.050	0.0433	-0.0359	0.0155	0.0557	0.0007	0.0152	-0.0357	1.0000	
9.Institutional Distance	9.994	3.651	0.0603	-0.3413	0.4010	0.7211	-0.0550	0.3866	-0.1416	0.0488	1.0000

Table 4.4 Summary and correlation statistics (New market entry)

Variables	Mean	S.D.	1	2	3	4	5	6	7
1.NewEntry	0.371	1.030	1.0000						
2.InstitutionalInstability	2.789	0.417	0.0654	1.0000					
3.StateOwnership	0.062	0.154	-0.0241	-0.4895	1.0000				
4.SubnationalInstitution	10.820	2.549	0.0723	0.4995	-0.2922	1.0000			
5.Firm Age	16.794	5.979	0.0109	0.4043	-0.2001	0.1726	1.0000		
6.Firm Size	2.128	1.099	0.0774	-0.1143	0.1606	-0.1287	-0.0113	1.0000	
7.R&D expenditure	0.007	0.039	-0.0141	0.0726	-0.0456	0.0182	-0.0045	-0.0654	1.0000

Step2- Location portfolio, new market entry and home country institution,

Considering the probability of new market selection in a given year is binary, I adopt the logit method that is based on maximum likelihood estimation to calculate the determinants of exiting location portfolio on subsequent location choice (Greene, 2008).

The basic models is as follows:

$$\begin{aligned} \text{NewMarketEntry}_{i,t} = & c_0 + c_1 * \text{DCO/NHO}_{i,t-1} + C_2 * \\ & \text{InstitutionalInstability}_{t-1} + C_3 * \text{ControlVariables}_{i,t-1} + e_{i,t} \end{aligned} \quad (4.3)$$

All the explanatory variables are lagged one year. Table 4.4 presents the descriptive statistics and correlation matrix for all variables.

4.5 Research Results

4.5.1 Location portfolio

Table 4.5 presents the results of the fixed effects model that is used to test the hypothesis 1 to hypothesis 4. It is important to notice that panel regression model reports three R-squares, of which interpretation varies depending on the type of model used.

For hypothesis 1, the result for state ownership shows a positive significant association with non-home-region orientation ($p < 0.10$), providing support for hypothesis 1a. It indicates that greater level of state ownership significantly increases the probability of Chinese MNEs expanding beyond home supranational regions. This evidence is consistent with prior studies which indicate that Chinese firms with higher levels of state involvement have privileged access to resources, thus tending to make their operation more globally dispersed. On the other hand, the testing result for the relationship of state ownership and developed-country orientation is somewhat interesting. While I predict the negative relationship between state ownership and

developed-country orientation in hypothesis 1b, the result in table 4.5 present a positive and highly significant effect ($p < 0.001$) suggesting that Chinese firms with higher levels of state ownership are likely to invest more in developed countries rather than in developing countries. Such a strong association indicates that developed countries with well-developed institutions and abundant strategic assets are more attractive to Chinese state-owned MNEs.

Hypothesis 2a predicts a positive relationship between better institutional quality at a provincial level and developed-country orientation in Chinese MNEs' current location portfolio. However, the statistical results in model 2 of table 4.5 show the coefficient of marketization index which is used to measure home sub-national institution is insignificant. Therefore, the testing results do not seem to support hypothesis 2a. The finding is out of expected and is contradicted with the results of some of existing studies. Chen, Zhai, Wang and Zhong (2015), for instance, also using Fan et al. (2011)'s marketization index to measure Chinese regional-level institution, find that the regional marketization helps foster the capabilities and advantages of Chinese firms to compete in the market-developed countries (Chen, Zhai, Wang, & Zhong, 2015).

The coefficient of association between subnational institutions and non-home-region orientation is negative and statistically significant as shown in model 1 of table 4.5, which is in line with my theoretical expectation in hypothesis 2b which predicts that a weaker institutional environment could enable Chinese firms equipped with strong capabilities to deal with uncertainty beyond home region countries.

Hypothesis 3a predicts that the relationship between institutional instability and non-home-region orientation is positive, which implies that unstable home country institutions would induce Chinese firms to invest more outside of the home region. Hypothesis 3b expects a negative relation between high level of institutional instability

and developed-country orientation. In model 1 of table 4.5, the association between institutional instability and non-home-region orientation is statistically significant but negative ($p < 0.001$), offering no support to hypothesis 3a. Results in model 2 show that the coefficient of the relationship between institutional instability and developed-country orientation is insignificant. Hypothesis 3b is also not supported.

As indicated in table 4.5, the coefficient of domestic alliance network with foreign firms from outside home region is positive but statistically insignificant, while the coefficient of the relations between domestic alliance network and developed-country orientation is significantly negative. This relation between the variable for IJV network and Chinese MNEs' location beyond home region is reasonable on the assumption that increased learning experiences of Chinese MNEs from their IJV partners are coupled with the probability of dispersing their foreign operation portfolio across different supranational regions. Therefore, both of hypothesis 4a and hypothesis 4b are not confirmed.

In addition, the coefficients of the control variables reveal some interesting results. First, the coefficient of technological capability has a significantly positive effect on non-home-region orientation, suggesting a firm's technological advantage enhances the capabilities of Chinese MNEs expanding outside of the home region. Second, the coefficient of total sales is positively related to a firm's expanding outside of the home region while the total sales do not have a significant effect in developed countries orientation. The coefficient of a firm's age also shows a significantly positive effect on non-home-region orientation, indicating that a firm's prior experience is positively associated with expansion beyond the home region. However, the result does not offer the support to the relationship between firm age and developed-country orientation.

Table 4.5 Results of Fixed-effects Panel Data Models on Location Portfolio of Chinese MNEs

	Non-Home-Region Orientation	Developed-country orientation
	Model1	Model2
<i>Main Variables</i>		
State Ownership	0.136**(0.046)	0.130***(0.015)
Sub-national Institutions	-0.017*(0.005)	-0.001(0.002)
Institutional Instability	-0.222***(0.021)	-0.007(0.008)
International joint venture	0.006(0.005)	-0.003+ (0.001)
<i>Control variables</i>		
Firm Age	0.065***(0.003)	0.004***(0.001)
Firm Size	0.015***(0.003)	-0.001(0.001)
Technological Capability	0.147+ (0.079)	-0.007(0.026)
Institutional Distance	0.015** (0.006)	0.002***(0.001)
MarketAttractiveness	-0.008*(0.003)	-0.001(0.001)
Year Dummy	Controlled	Controlled
Constant	-0.763***(0.092)	0.642***(0.023)
No. Obs.	9566	9566
No. Firms	1556	1556

+p<0.10, * p<0.05, ** p<0.01, *** p<0.001

Robust standard errors are in parentheses.

Estimation results by different industry

Market-oriented institutions may have different influence in firms of each industry considering firms in different industry or sector are driven by various investment motivations (Amighini, Rabellotti, & Sanfilippo, 2012). Therefore, it is need to examine the effect of home country institutions in geographic scope of Chinese multinationals with disaggregated data by industry. Regarding the industry classification, I consider four groups, resource intensive sector, manufacturing sector and services industry based on National Bureau of Statistics of China (2003) (Chen & Tan, 2012; Cordeiro, He, Conyon, & Shaw, 2013; Su & Wan, 2014; Yang, Liu, Gao, & Li, 2012). I further categorize the manufacturing sector into low-to-medium technology manufacture and high technology manufacture, as firms display different internationalization strategies depending on the added value and scientific knowledge of their products (Bell, Crick, & Young, 2004; Hernández & Nieto, 2015; Holtbrügge & Berning, 2018). The results are indicated as follows in Table 4.6 and Table 4.7:

Table 4.6 Non-home-region vs. Home-region orientation by different industry

	Nature-resource	High-Tech Manufacture	Low&Medium- Tech Manufacture	Service industry
Non-home-region orient				
<i>Main Variables</i>				
State Ownership	-0.112(0.144)	0.375*** (0.085)	0.167+(0.090)	-0.031(0.067)
Sub-national Institutions	-0.013(0.020)	-0.005(0.009)	-0.031**(0.010)	-0.037*** (0.009)
Institutional Instability	-0.168*(0.078)	-0.239*** (0.037)	-0.165*** (0.037)	-0.160*** (0.036)
International joint venture GlobalFirm	0.164*** (0.031)	-0.005(0.006)	0.007(0.009)	-0.024+(0.013)
<i>Control variables</i>				
Firm Age	0.038*** (0.011)	0.070*** (0.005)	0.060*** (0.005)	0.056*** (0.005)
Firm Size	-0.008(0.017)	0.087*** (0.011)	0.039*** (0.006)	0.004+(0.002)
Technological Capability	1.000(0.942)	0.116(0.155)	0.174+(0.089)	0.352(1.59)
InstitutionalDistance_I ntraRegional	0.033(0.022)	0.023*(0.010)	0.007(0.010)	0.006(0.010)
MarketAttractiveness_I ntraRegional	-0.015(0.011)	-0.012*(0.006)	-0.007(0.005)	0.005(0.005)
Constant	-0.153(0.460)	-2.471*** (0.253)	-1.109*** (0.176)	-0.363** (0.139)
No. Obs.	434	4028	2853	2251
No. Firms	57	686	506	307

+p<0.10, * p<0.05, ** p<0.01, *** p<0.001

Robust standard errors are in parentheses.

Table 4.7 Developed-country vs. Developing-country orientation by different industry

	Nature-resource	High-Tech Manufacture	Low&Medium- Tech Manu	Service industry
Developed-country orient				
<i>Main Variables</i>				
State Ownership	0.078(0.063)	0.100***(0.027)	0.213***(0.030)	0.113***(0.024)
Sub-national Institutions	-0.025**(0.009)	0.007*(0.003)	-0.002(0.003)	-0.008*(0.003)
Institutional Instability	-0.058(0.040)	-0.001(0.014)	-0.033*(0.014)	0.007(0.015)
International joint venture_DevelopedCountryFirm	0.039***(0.012)	-0.005*(0.002)	-0.002(0.003)	-0.004(0.004)
<i>Control variables</i>				
Firm Age	0.018***(0.005)	0.001(0.002)	0.006***(0.002)	0.003+(0.002)
Firm Size	0.008(0.008)	-0.001(0.003)	0.001(0.002)	-0.001(0.001)
Technological Capability	-0.476(0.415)	-0.007(0.050)	-0.005(0.029)	1.470**(0.567)
InstitutionalDistance_DevelopedRegion	0.004(0.003)	0.001(0.001)	0.006***(0.001)	0.001(0.001)
MarketAttractiveness_DevelopedRegion	0.004(0.003)	-0.001(0.001)	-0.001(0.001)	0.001(0.001)
Constant	0.471**(0.176)	0.625***(0.075)	0.603***(0.046)	0.703***(0.030)
No. Obs.	434	4028	2853	2251
No. Firms	57	686	506	307

+p<0.10, * p<0.05, ** p<0.01, *** p<0.001

Robust standard errors are in parentheses.

On one hand, the positive sign for the state ownership means that Chinese multinationals in manufacturing sectors with high levels of state involvement are more likely to expand outside the home region and enter into developed-country markets. As regards for sub-national institutional diversity, this is clearly relevant in the medium-low-tech manufacture and service sectors, weaker sub-national institutions can help Chinese firms to disperse their operations globally. In resource intensive sector and service sector, less-developed institutions may promote Chinese firms invest more in developing countries. The opposite seems to emerge for investments in high-tech manufacturing industry in which strong marketing-supporting institutions is benefit for Chinese firms' expanding more into developed countries. Another set of interesting results are represented by the effect of institutional instability in different industries. The significantly negative coefficient of institutional instability for all the four groups

of industries shows that the radical change in institution environment induce Chinese firms expand within their home region no matter what industry they are engaged in. On the other hand, collaboration with foreign firms in IJVs plays a significantly positive role in geographic scope of Chinese multinationals only in resource intensive sector. The significantly negative effect of IJVs is presented in service sector and high-tech manufacturing sector.

4.5.1.1 Robustness Tests

Estimations including Ofdi projects in financial centre and tax havens

Tax havens and offshore financial centres including British Virgin Islands, Cayman Islands and Hong Kong has been excluded from the destinations list of Chinese MNEs in the previous estimation, considering the actual purpose of those investment. Recent studies have demonstrated that a large portion of Chinese MNEs take advantage of tax havens as ‘round-tripping’ activities, and then invest back to China to enjoy preferential treatment as foreign entity (Cheng & Ma, 2010; Morck, Yeung & Zhao, 2008; Wong & Chan, 2003). However, dataset on Chinese MNEs entry into those tax havens do not fully distinguish between actual outward investment and ‘round-tripping’ activities. Therefore, I re-estimate the full dataset by including those ofdi projects in tax havens and financial centres to check the sensitivity of estimation results to sampling selection biased. The results (Table 4.8) do not alter the sign and statistical significance of the variables of interest in the model for non-home-region strategy, and there is only slightly change in the direction and statistical significance in the model for developed-country strategy.

Table 4.8 Robustness: Estimation including tax heavens and offshore financial centers

	Non-Home-Region Orientation	Developed-country orientation
	Model1	Model2
<i>Main Variables</i>		
State Ownership	0.041(0.029)	0.013(0.012)
Sub-national Institutions	-0.022***(0.003)	-0.005***(0.001)
Institutional Instability	-0.103***(0.013)	0.022***(0.007)
International joint venture	0.014***(0.003)	0.001(0.001)
<i>Control variables</i>		
Firm Age	0.040***(0.002)	-0.001(0.001)
Firm Size	0.011***(0.002)	-0.001(0.001)
Technological Capability	0.003***(0.001)	-0.001***(0.001)
InstitutionalDistance	0.011**(0.004)	0.002***(0.001)
MarketAttractiveness	-0.002(0.002)	-0.001(0.001)
Year Dummy	Controlled	Controlled
Constant	-0.482***(0.058)	0.786***(0.019)
No. Obs.	14457	14457
No. Firms	2166	2166

+p<0.10, * p<0.05, ** p<0.01, *** p<0.001

Robust standard errors are in parentheses.

Estimations using different sampling criteria

Follows existing literatures, prior estimation used 10% ownership as the minimum requirement for outward investment in foreign subsidiary (e.g. Li,Guo, &Xu, 2017;Lu et al., 2014; Ramasamy et al., 2012). The rationale for this threshold is that for any subsidiaries with less than 10% ownership, the parent firms are less likely to exert significant influence over the subsidiaries (Xu, Hitt, & Miller, 2020). In the robustness test, OFDI's are redefined as majority-owned foreign entities in which parent firm owning more than 50% of the subsidiary equity, which means dominant control and a higher level of influences in the decision making process of foreign subsidiary (Dhanaraj & Beamish, 2004). The result (Table 4.9) show similar support for the hypotheses as with the 10% threshold.

Table 4.9 Robustness: Estimations using different sampling criteria

	Non-Home-Region Orientation	Developed-country orientation
	Model1	Model2
<i>Main Variables</i>		
State Ownership	0.092***(0.027)	0.064*** (0.009)
Sub-national Institutions	-0.022***(0.005)	-0.001(0.002)
Institutional Instability	-0.203***(0.022)	0.009(0.008)
International joint venture	0.011*(0.005)	-0.002+(0.001)
<i>Control variables</i>		
Firm Age	0.066***(0.003)	0.002*(0.001)
Firm Size	0.012***(0.003)	-0.001(0.001)
Technological Capability	0.159*(0.078)	-0.001(0.025)
InstitutionalDistance	0.018**(0.006)	0.002**(0.001)
MarketAttractiveness	-0.008**(0.003)	-0.001(0.001)
Year Dummy	Controlled	Controlled
Constant	-0.734***(0.092)	0.640***(0.022)
No. Obs.	9253	9253
No. Firms	1514	1514

+p<0.10, * p<0.05, ** p<0.01, *** p<0.001

Robust standard errors are in parentheses.

Furthermore, I check the robustness of results concerning the effect of subnational institutions on the location portfolio of Chinese multinationals using four dimensions of NERI index separately (Table 4.10), that is, 1) the relationship between government and markets; 2) the development of product market; 3) the development of factor markets; and 4) the development of market-intermediate institutions and the legal system. The analysis of the effects of different aspects of institutions helps to capture the complexity and diversity of the institutional environment and its relationship with firm internationalization strategy (Liu, Lu, & Chizema, 2014). Overall, the statistical results shown in Table 4.10 are consistent with the main findings. Among the four dimensions of the Marketization index, the coefficient of government-market relation presents a negative and highly significant effect with respect to non-home-region orientation ($p<0.1$). Both of the coefficients of the relationship between product market or factor market and non-home-region orientation is significantly positive, while the coefficient of the interaction between intermediary institutional development and non-home-region orientation is significantly negative. In terms of developed-country

orientation, none of the four dimensions of Fan et al. (2011, 2017)'s Marketization index are found to have significant effects, although the coefficient for government-market relations and factor market present the same sign as the main analysis.

Table 4.10 Robustness: Estimation with alternative independent variables

	Non-Home-Region	Developed-country orientation
	Orientation	
	Model1	Model2
<i>Main Variables</i>		
State Ownership	0.018+ (0.027)	0.056***(0.009)
Government-market relation	-0.040***(0.006)	0.003(0.002)
Product market	0.013*(0.006)	-0.001(0.002)
Factor market	0.006*(0.002)	0.003 (0.001)
Intermediary and legal	-0.002+(0.001)	-0.001(0.001)
Institutional Instability	-0.252***(0.023)	0.018*(0.007)
International joint venture	0.007+(0.005)	-0.003+(0.001)
<i>Control variables</i>		
Firm Age	0.059***(0.003)	0.001(0.001)
Firm Size	0.024*(0.012)	0.003(0.002)
Technological Capability	0.169*(0.080)	-0.007(0.026)
Institutional Distance	0.005** (0.002)	-0.001(0.001)
Year Dummy	Controlled	Controlled
Constant	-0.089+ (0.062)	0.650***(0.021)
No. Obs.	10086	10086
No. Firms	1585	1585

+p<0.10, * p<0.05, ** p<0.01, *** p<0.001

Robust standard errors are in parentheses.

4.5.2 New market entry, location portfolio, home country institutions

Hypothesis 5a predicts the negative role of prior location portfolio in the likelihood of choosing a new market that is not consistent with the existing location portfolio in Chinese firms' subsequent investment. The estimated results of both model 1 and model 2 in Table 4.11 show that the coefficient of prior location portfolio is negative and highly significant ($p<0.001$), providing strong support for hypothesis 5a. The result thus confirms the existence of path dependence effect in the location strategy of Chinese multinationals. In other words, the knowledge and international experiences accumulated in the past behaviour will shape the future location trajectory of Chinese firms in their international expansion.

In Table 4.11, institutional instability in home market has a significantly positive influence on new market entry. This result indicates that Chinese MNEs are less likely to make subsequent location choice which is in line with their prior location strategy orientation when there is radical or unstable institution change in China. This is also holds for several economic indicators for host country market. The result confirm the attractiveness of host markets in terms of natural resources endowment and large market size that may induce Chinese firms to break the current location portfolio and entering a new market that different from the prior major markets. In addition, the distance between China and host country reveals interesting results. All the coefficients of distance except economic distance show the significant and negative relationship, suggesting that greater distance in terms of economic, administrative and political development between China and host country discourage Chinese firms in investing a relative new market.

Table 4.11 Logit model on New Market Entry, Location Portfolio and Home Country Institutions

NewMarketEntry	Model1	Model2
<i>Main Variables</i>		
LocationPortfolio_NHR	-0.617***(0.036)	-3.882***(0.252)
LocationPortfolio_Developed		
Institutional Instability	0.298***(0.063)	0.269(0.196)
<i>Control variables</i>		
Firm Age	-0.008*(0.003)	0.018(0.012)
Firm Size	0.193***(0.012)	-0.112*(0.045)
Technological Capability	0.195***(0.572)	-0.020+(0.012)
EconomicDistance	0.358***(0.020)	-2.765***(0.111)
AdminDistance	-0.036***(0.003)	-0.344***(0.013)
PoliticalDistance	-1.304***(0.040)	-3.553***(0.180)
NaturalResource	0.073***(0.002)	0.069***(0.011)
GDP	0.454***(0.017)	0.975***(0.061)
GDPGrowth	0.437***(0.012)	0.420***(0.025)
Constant	7.004***(0.572)	49.198***(2.370)
No. Obs.	22347	22347
Pseudo R2	0.3778	0.9364

+p<0.10, * p<0.05, ** p<0.01, *** p<0.001

Standard errors are in parentheses.

4.6 Discussion

This study examines home country factors especially home institutions influence the development of FSAs and the location portfolio of Chinese multinationals. The location portfolio is investigated from two dimensions, that is, home-region vs. non home-region orientated and developing- vs. developed-countries oriented.

The study constructs a panel dataset consisting of 28181 OFDI location by Chinese MNEs in 139 host countries during the period of 1999-2018. The empirical analysis provides evidence that Chinese multinationals with higher level of state ownership tend to adopt non home-regional orientation and developed country orientation in their location portfolio. The research also identifies Chinese firms that originated from weaker institutional region follow non home-region orientation. However, there is no evidence for Chinese firms that originated from stronger institutional region will follow developed country orientation. Institutional instability over time is also found to have negative effects on non home-region orientation. And the sino-foreign joint venture are found to be positively correlated with non home-region orientation and negatively correlated with developed country orientation. On the other hand, there is strong economically evidence that greater degree of institutional instability in home market would induce Chinese firms to break existing location portfolio and choose a new country to enter.

4.6.1 Foreign location portfolio and home country institutions

Successful international expansion of MNEs is not only conditioned by their ability to exploit and transfer FSAs through use of geographically dispersed affiliates in host country, but it also builds on deploying non-location-bound FSAs that developed in their home country across national or even regional borders (Rugman & Verbeke, 2008; Rugman, Verbeke, & Nguyen, 2011; Verbeke & Asmussen, 2016). It has been argued

by scholars that non-location-bound FSAs possessed by MNEs for global reach are those related with the capabilities of leveraging higher levels of intrafirm transfers (Mauri, Song & Figueiredo, 2017) or the use of advantages in technological, marketing or management (Rugman, 1981; Banalieva & Dhanaraj, 2013) to facilitate the expansion beyond MNEs' home region (Rugman & Verbeke, 2007). Different from developed-country counterparts, development of FSAs by Chinese MNEs for international expansion may largely depend on home country government support, business or political network relationship instead of intangible knowledge-based FSAs (See review, Adarkwah & Malonaes, 2020), and thus makes the home-country context a stronger predictor of international location strategy.

Chinese firms provide an interesting context to explore context-specific properties of CSAs and FSAs in the Chinese context (Rugman & Li, 2007). Chinese firms have developed non-location-bound FSAs mainly based upon recombinations with home CSAs (Rugman, Nguyen, & Wei, 2014). Considering the unique Chinese institutions that are featured by 'both the heritage of communist ownership and the need to build market interactions from scratch' (Bevan, Estrin & Meyer, 2004), transitional institutions by a dual-track system can be viewed as an important source of FSAs for Chinese firms (Chen, 2015). Chinese MNEs can take advantage of home institutions to acquire critical complementary resources in the home country.

Specifically, this study examines the role of three aspects of home country institutions on the geographic scope of Chinese MNEs. First, I observe that the propensity of Chinese firms to penetrate international markets outside the home region has a positive relationship with high level of state-ownership. This argument supports the resource-based view of CSAs that home government can lend helping hand and protect Chinese MNEs from fierce competition in overseas markets by subsidized

financing and soft budget constraints which enable Chinese firms to reduce challenges imposed by inter-regional liability of foreignness (Li & Oh, 2016; Kalasin, Cuervo-Cazurra, & Ramamurti, 2019; Duanmu, 2014). This evidence is consistent with prior studies which indicate that Chinese firms with high levels of state involvement have privileged access to resources and less sensitive to host political risk that could facilitate their OFDI activities more globally dispersed (Rugman & Li, 2007; Collison & Rugman, 2007).

Second, this study also shows the importance of investigating sub-national institutional heterogeneity. Chinese MNEs headquartered in different cities and subnational regions are under different influences of institutional pressures, and thus implement different international expansion strategy (Li, Xia, Shapiro, & Lin, 2018; Ma, Ding, & Yuan, 2016; Liu, Lu, & Chizema, 2014). It has been recognized that the differences of institutional environment within home country can result in Chinese firms creating different capabilities (Chen, 2015). Strong market-oriented institutions are generally considered to be the essential foundation for 'generic' FSA development such as technological and marketing capabilities, which is benefit for firms expanding outside the home region. Conversely, the final results in this study support the evidence of significant role of weak institutions for Chinese MNEs in facilitating expansion outside home region, while Chinese firms embedded in strong subnational institutions are more likely to invest within home region countries. This is probably because most Chinese MNEs are still at an early stage of internationalization, the market-supporting institutions that they are embedded in may not have been strong enough to cultivate and promote the firm-specific capabilities that required for dispersing their operations globally (Li et al., 2018). Meanwhile, the result justifies the role of institution-embedded learning effects in transferring FSAs outside the home region. Compared

with their peers from the subnational region with strong institutions, Chinese firms embedded in weak institutions region have accumulated greater knowledge in dealing with different situation of environmental instability and operational risk (Yang, 2018; Cuervo-Cazurra & Genc, 2008). This institutional advantage that acquired from long-time learning and imprinting at home may become the distinctive competitive advantage of Chinese firms and help them expand more widely (Martin, 2014). This is in line with the argument of Cuervo-Cazurra et al. (2018) that EMNEs can exploit the knowledge of managing weak institutions and turn it into the source of FSAs that facilitate overseas operations.

I have also found that during the period of institution instability Chinese firms are more likely to expand within home region. Although the result goes against the initial theoretical expectation, it still provides evidence suggesting that radical change of home country institutions result in different patterns of international expansion for domestic firms. While the importance of multinationals' strategy change in response to institutional reform in host country has been well documented, the study of how institutional change in home country affects international strategy of firms still needs further research (Cuervo-Cazurra, Gaur, & Singh, 2019).

Finally, the result shows the development of Chinese FSAs that required for international expansion can depend on collaboration with foreign firms in international joint ventures. To collaborate with foreign firms especially those foreign businesses from advanced countries could allow Chinese firms to benefit significantly from technology and advanced managerial experiences transfer (Rugman & Li, 2007). However, the result of this study suggest that Chinese firms that engaged in IJVs in domestic market tend to invest more in developing countries instead of developed countries. This is probably because experiential knowledge from alliance with

developed market firms in Chinese market is not easily applicable in developed markets (Thomas,Eden, Hitt, & Miller, 2007) . The knowledge acquired from less-developed institutional environments may be more easily applicable in similar opaque environments.

4.6.2 New market entry, location portfolio and home institutions

The result on the relationship between location portfolio and subsequent location choice suggests a path dependence of Chinese multinationals in their foreign location strategy. This evidence confirms the argument that OFDI market selection is composed of a series of inter-connected sequential decisions instead of a single one-time decision (Johanson & Vahlne, 1977; Guillen, 2003; Nachum & Song, 2011). Multinationals incurred by environmental uncertainty and complexity in foreign market need to acquire information and knowledge obtained from previous investment before making the subsequent location choice, thus lead to the sequential entry strategy with earlier and latter decision interrelated with each other (Guillen, 2002). This location expansion route within the foreign markets is similar to that suggested in the classic Uppsala internationalization process model (Johanson & Vahlne, 1977, 2009). The international location pattern across countries is based on the gradual development process and taking use of experiential knowledge. Generally speaking, foreign investors prefer areas where prior entrants from the same home country have explored for the reasons of knowledge and uncertainty.

Furthermore, ofdi market selection is also significantly influenced by legitimacy-seeking from variety of stakeholders as multinationals are embedded in highly institutionalized historical and socio-cultural context (North, 1990; Kostova & Roth, 2002). Foreign investors need to achieve internal consistency within its internal institutional environment as well as achieving external legitimacy (Westney, 1993;

Kostova&Zaheer, 1999). From this perspective, ofdi location selection can be viewed as the result of interplay between external legitimacy and internal legitimacy requirements. Therefore, foreign investors expand overseas not only by acquiring experiential knowledge in firms' diversification, but also by developing the international routines that they have used repeatedly. Foreign investors will repeat activities or strategies that they are familiar with before engaging in a new investment pattern (Beck,Bruderl & Woywode, 2008).

4.7 Conclusion

Despite the growing literature on Chinese OFDI, our knowledge is still limited as to what determines the location strategy of Chinese MNEs. This issue is important because geographical distribution of assets (resulting from a particular location portfolio) has become potentially a valuable source of competitive advantage (Dunning & Lundan, 2008). The received theories such as Dunning's OLI paradigm and internalization theory, though useful to address some aspects of location portfolio such as regional and global internationalization, fall short of explaining the location strategy of Chinese OFDI. Indeed, these mainstream theories largely neglect the impact of home country institutional environments on location strategies of MNEs. Compared to developed countries, emerging and developing countries are characterized by weak market-based institutions and sophisticated business and personal relationships (Cuervo - Cazurra, 2012). The significant difference in the local context in which firms are embedded call for developing a perspective by incorporating home country institutional environments.

This paper makes a threefold contribution to the IB literature. First, I try to clarify the concept of location portfolio of MNEs. Extant studies on MNE location strategy tend to either focus on location choice or cover a particular aspect such as global and

regional strategies. This paper focuses on two dimensions of location portfolio, geographical dispersion (i.e., global vs regional orientation), and economic development spectrum (i.e., developed vs developing country orientation). These two dimensions are not only academically useful but also of practical value. Indeed, MNE executives are often overly concerned with location choice and pay little attention to location portfolio.

Second, I complement prior studies by systematically addressing the impact of home country institutional environments on Chinese MNEs' location strategy. Very few studies have investigated the role of home country institutional environments in MNE location strategy (Voss, Buckley, & Cross, 2010), partly because the cross-border activities under the traditional theoretical lens is often treated as a one-way process; that is from developed countries to developing ones. I focus on three aspects: state ownership, institutional diversity across subnational regions and institutional instability over time. These are crucial areas but remain hitherto under-researched in the context of location strategy of Chinese MNEs.

Third, it is useful to consider location choice and location portfolio simultaneously in the empirical work. Indeed, location choice and location portfolio are not independent of each other. A market entry in a foreign country will affect the firm's current and future location portfolio. While location portfolio results from a series of location choice decisions, the repeated substantive investments in a particular region seem to play a more significant role in shaping a firm's non-regional vs. regional strategy orientation.

My study provides some useful points to MNE managers and policy-makers in China – and could also have more general applications in other emerging economies. Companies should take into account not only host country institutional factors but those

of the home country when making location choices that ultimately result in their location strategy. There is a danger that Chinese and other emerging market MNEs may internationalize too widely, too soon, especially in developed country markets, in the pursuit of legitimacy. My arguments indicate that not all emerging MNEs are well-placed to do this. By recognizing their limitations, Chinese MNEs can ensure that their investments are appropriate based on their specific institutional characteristics in terms of, for instance, the extent of state ownership and the extent to which their subnational regions are developed. Similarly policy-makers would do well to foster globalization in a measured way recognizing that different location strategies are suited only to certain Chinese MNEs.

In conclusion, I seek to make a conceptual advance in IB literature by elaborating on the notion of location strategy and providing empirical analysis on the effects of home country institutional environments on the location strategy of Chinese MNEs. Given the widespread recognition that emerging market firms are increasingly “springboarding” into international markets, it is important to consider where they land – not merely as discrete choices but as a holistic strategy. My study offers a novel starting point for further research and has useful practical and policy implications as emerging market MNEs continue to make impressive strides on the world stage.

Chapter 5 OFDI Agglomeration and Location Strategies of Chinese Multinationals

5.1 Introduction

The rapid emergence of Chinese MNEs has attracted substantial research interest in the international business field (Buckley, 2007; Child & Rodrigues, 2005; Luo, Xue, & Han, 2010; Mathews, 2006; Voss, Buckley, & Cross, 2010). The accelerated expansion of China's OFDI can be partially attributed to the 'Going global' strategy and the subsequent series of promoting policies include BRI initiative by the Chinese government that encourages Chinese companies to invest abroad in order to increase their international competitive positions (Deng, 2004; Luo, Xue, & Han, 2010).

Together with the increasing attention of research on the OFDI location of Chinese firms in the international business field, the co-location strategy adopted by Chinese MNEs in foreign markets has becoming an increasingly important research focus in IB literatures (Jacobs, Koster, & van Oort, 2014). Some have argued that Chinese firms may follow each other or imitate the location strategy of previous investors in order to reduce uncertainty and mitigate operational risks in foreign market entry (De Beule, Somers, & Zhang, 2018; Yuan & Pangarkar, 2010). This trend of peer learning or peer following could eventually lead to different levels of investment agglomeration (Liu, Jiang, Zhang, & Chen, 2018). However, these studies mainly draw from the standpoint of organizational learning or institutional theory to examine the tendency of Chinese firms to co-locate with their predecessors, while the approach of economic geography has been largely neglected in Chinese FDI studies in IB field. The perspective of economic geography (Krugman, 1991; Marshall, 1920) provides a powerful approach to understand uneven spatial distribution of economic activities of firms, that is, why

some economic activities of MNEs concentrate in a specific place compared to other places (Ottaviano, 2011).

Another major gap in the existing literature is that most studies on location work of Chinese MNEs are carried out at the country level (Buckley, 2007; Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Buckley, Devinney, & Louviere, 2007; Kolstad & Wiig, 2012; Quer, Claver, & Rienda, 2012; Ramasamy, Yeung, & Laforet, 2012), with the exception of few studies, although the literature has indicated that the difference between location characteristics of the sub-national region has received considerable attention by multinational enterprises when they locate their foreign investment (Tan & Meyer, 2011). With respect to the studies of agglomeration, in particular, the analysis at the sub-national scale is more reliable both from the theoretical and empirical point of view, as the development of industrial cluster originally emerges in cities or provinces, then expands into the national scale (Belderbos & Carree, 2002; Head & Mayer, 2004). The subnational unit of analysis would enable decomposing the spatial expansion patterns of MNEs in depth, since the economic activities are not evenly distributed within a country but tend to be spatially agglomerated (Ascani, Crescenzi, & Iammarino, 2016; Narula & Pineli, 2019).

It would be clearly beneficial, therefore, to integrate the ideas of economic geography with those of international business to provide a concrete explanation for the spatial behavior of multinationals (Iammarino & McCann, 2013; McCann, 2011). In line with this argument, this study aims to investigate the spatial clustering of Chinese MNEs in a foreign subnational context by differentiating the two kinds of geographical agglomeration, that is, the agglomeration with their home country peers and agglomeration with firms from the same industry (Tan & Meyer, 2011).

This study goes beyond the traditional OFDI theory and develops an analytical framework that combines the insights from organizational learning perspective, institution-based views and economic geography. The nested logistic regression model is employed to estimate the effect of country-of-origin agglomeration and industry-specific agglomeration in host subnational regions on the location strategies of Chinese MNEs. Using a large dataset that consists of 2728 greenfield investment projects in 250 sub-national regions across 29 countries from 2003 to 2018, it was possible to measure whether Chinese MNEs co-locate with their home country peers, and whether Chinese MNEs cluster with other firms in the same industry in host subnational regions. The projects on greenfield investment are particularly appropriate in examining geographic agglomeration as greenfield OFDI may not be easily influenced by previous investments, and those investments are more driven by regional characteristics as compared to M&A investment (De Beule, Somers, & Zhang, 2018; Karreman, Burger, & van Oort, 2017). Furthermore, this study accounts for whether Chinese MNEs engaged in different industry activities behave differently in response to geographical agglomeration. Finally, the moderation effect of firm-specific characteristics such as ownership structure and home country industry agglomeration are also taken into consideration.

My study on ofdi agglomeration of Chinese multinationals contributes to IB and strategic management research in three important ways. First, despite growing interest in the location strategy of Chinese MNEs, previous research has not paid special attention to the structure of firms' location decisions; that is, whether or not their decisions are hierarchical and sequential (Beule, Somers, & Zhang, 2018; Cheng, 2007). A hierarchical location structure suggests that Chinese investors will first choose a foreign country and then choose a specific subnational region within that country as

their location destination (Iammarino and McCann,2013; Beugelsdijk et al., 2010). While location strategy by Chinese multinationals at the national level of analysis have been widely discussed (Buckley et al., 2007; Lu,Liu,Wright,&Filatotchev, 2014; Quer, Rienda,Andreu,&Miao, 2019), the knowledge regarding how the heterogeneous locational features at the subnational region affect location decision of MNEs is still unknown. Geographic agglomeration/clustering, in particular, which is mainly developed and performed at subnational region level, deserves a more differentiated analysis at more detailed level of geographical specificity (Iammarino and McCann, 2013; Stallkamp,Pinkham,Schotter,& Buchel, 2018). This is consistent with Beugelsdijk, McCann, and Mudambi's (2010:489) comment that "integrating a discussion of firm organizational issues with the characteristics of the sub-national region is essential for better understanding the interplay between the MNE and its spatial environment." My study incorporates agglomeration research from economic geography together with IB literature to enhance our understanding of hierarchical decision making process of ofdi location by Chinese MNEs. Through employing nested logit model, we investigate the locational characteristics conditioned both at across countries and subnational level within these countries, which mirror plausible decision-making process by Chinese investors abroad.

Second, this study extends current literatures and improves the understanding of agglomeration economies in the context of IB by including broader agglomeration forces. The international business and regional economic literature has indicated that foreign investors prefer locations with similar firms, particularly with other firms from the same industry, which is encouraged by inter-firm linkages based on industrial- or activity-based agglomeration (Lamin & Livanis, 2013; Head,Ries, & Swenson,1995; Belderbos & Carree,2002). In comparison, the relatively small numbers of research that

relate clustering/agglomeration externalities with the home country of the foreign investor emphasizing the significance of home-country linkages and ethnic ties in the generation of agglomeration economies (Tan & Meyer, 2011; Stallkamp, Pinkham, Schotter, & Buchel, 2018; Karreman et al., 2017). Foreign agglomeration by home-country linkage is particularly important for emerging market and Chinese MNEs, because most of which usually lack firm specific advantages that are necessary to cope with cultural and institutional distance in target country and subnational region, thus they may depend heavily on overseas migrant networks for alternative information and knowledge as argued by scholars in current studies (Karreman et al., 2017). In this paper, based on Tan and Meyer (2011), I take into account country-of-origin agglomeration and industry-specific agglomeration simultaneously to further test whether Chinese MNEs can benefit from clustering/agglomeration effects in host subnational region. This responds to the call for greater emphasis is needed to be placed on the different sources through which agglomeration economies occur (Jones, 2016). Our final result suggest that country-of-origin agglomeration and industry specific agglomeration indeed determine location strategy of Chinese MNEs, and that their relative impact is dependent on the foreign subsidiaries' industry function and value-added activities.

Third, this study also contributes to empirical research on the internationalization of emerging market firms, especially those from China. This study provides valuable insights into how interplay of particular characteristics of home subnational region and host subnational region affect Chinese firm's foreign location (Li & Bathelt, 2018). For example, Chinese state-owned enterprises have to balance complex interface of home and host country locational characteristics (Meyer, Ding, Li, & Zhang, 2013). On one hand, they can access privileged resources from home country in return for alignment

to political objectives, and on the other hand, they are likely to incur high pressure for legitimacy in host country as their state identity. My result also implies that managers from more diverse country may have higher levels of cognitive complexity, and thus might be more sensitive to inter-subnational region differences, and adjust their decisions accordingly. The empirical results are not only important for Chinese firms as well as authorities, but also contribute to theoretical development in existing IB literature on agglomeration economies and emerging market MNEs.

5.2 Theories and Hypothesis Development

The geographic concentration of economic activity, which can be labeled as agglomeration, spatial cluster, or co-location, is a phenomenon that has been recognized long ago (Zschoche, 2016). The early focus of research on agglomeration economies can be traced back to Marshall (1920), who identified three reasons for the clustering of similar firms from the same industries: a pooled market for workers with specialized skills, easier development of specialized inputs and services, and benefits from technological spillovers (Barrell & Pain, 1999; Head, Ries, & Swenson, 1995; Wheeler & Mody, 1992). However, the agglomeration concept or co-location tendency was relatively neglected in the international business studies until Dunning (1995, 2000), who linked the industrial clustering with FDI activities and argued that being close to other related firms may also play its role in FDI (Dunning, 2000). In the age of alliance capitalism, due to the evolution of inter-firm cooperation and the increasingly blurred boundaries of firms, the interdependence of complementary resources in strategic alliance provides a strong industrial foundation for the development of multinational enterprises in overseas markets (Dunning, 1995). Empirical studies have confirmed that the industrial clustering in the form of industry zones or parks, economic zones or high-technology district has become one of the important factors to attract foreign FDI.

The geographic concentration of firms that undertake OFDI, to some extent, still share some common characteristics with their domestic peers, such as the Krugman's (1991) model describe that the related industries tend to co-locate through buyer-supplier and supplier-buyer relationships (Krugman, 1991; Porter, 1990). Foreign investors are also found to agglomerate around investors with backward and forward production linkages (Amiti & Javorcik, 2008; Crozet, Mayer, & Mucchielli, 2004; Debaere, Lee, & Paik, 2010; Head & Mayer, 2004; Head & Ries, 1996). For example, Head and Ries (1996) combine the "micro" and "meso" levels as they show how foreign investors in the textile sector and in the machinery, electronics and instruments sectors choose foreign cities where many potential intermediate suppliers have already located. Furthermore, Amiti and Javorcik (2008), studying foreign firm entry in China during 1998-2001, find market and supplier access to be key determinants of foreign entry. Looking at Japanese investments in Europe, Head and Mayer (2004) extend the notion of market access and offer important evidence that Japanese investors tend to agglomerate in central places of Europe where a large market potential can be expected.

Not only the above-mentioned inter-firm linkage, but also other mechanisms underlying strategic consideration can be applied to illuminate why multinational enterprises tend to locate geographically close to other firms in foreign countries. For example, the theory of oligopolistic reaction posits that the initial FDI activities by one of the oligopoly members will induce a cluster of countering investments by other firms in the same industry to follow rivals into foreign markets in order to secure the market, thus increasing the concentration of FDI entries (Flowers, 1976; Knickerbocker, 1973). Scholars adopting the view of behavior inertia and imitation strategy assume multinationals may take similar decisions by evaluating credible signals from the peers in the same business group to avoid the mistakes of other firms, leading to herd behavior

(Henisz & Delios, 2001; Yuan & Pangarkar, 2010). In addition, cultural and social factors are also held to be influential in the co-location strategy of multinational firms (Hofstede, 2001). Individualism/collectivism is one of the cultural factors that is most likely to affect agglomeration. Because agglomeration is formed by a group of similar firms, the cultural dimension of individualism/collectivism is likely to influence a firm's desire to join the group (Salomon & Wu, 2007). Japanese multinationals, for instance, place great importance on cooperation within a group. The Japanese suppliers will move with their manufacturing customers all over the world, wherever they set up new production facilities, so as to maintain their strong relationship (Head, Ries, & Swenson, 1999; Kameda, 2013). Chinese multinationals are well known to depend heavily on ethnicity-based social and business networks, and they tend to locate in Chinese concentrated areas and regional ethnic clusters in overseas markets (Ganzaroli & De Noni, 2017; Karreman, Burger, & van Oort, 2017). Foreign investors with similar ethnic background who co-locate with each other, which is also called country-of-origin cluster (Mucchielli & Yu, 2011; Tan & Meyer, 2011), is one of the special agglomerations in the context of FDI.

Tan and Meyer (2011) in their recent study differentiate industry FDI clusters and country-of-origin clusters, and state that co-location with firms from the same industry and from the same home country provide foreign investors different types of local knowledge and resources. Engaging in industrial clusters facilitates access to local industry-specific knowledge such as technological know-how and ideas, while engaging in country-of-origin clusters provides a supportive platform to share the knowledge of local operational environments and helps acquire legitimacy (Tan & Meyer, 2011; Urzelai & Puig, 2019). Possession of local operational knowledge includes familiarity with business practices, market conditions and government

regulations which not only constitute the necessary foundation for successful internationalization, but also the basis for exploring technological resources in the local context. The dissimilarity in operational environments between home and host countries impedes the effective information/knowledge transfer from headquarters to foreign subsidiaries, which can result in extra costs and risks in multinational business. Therefore, in host countries with greater environmental uncertainty, multinational firms tend to seek more knowledge on the local operational environment. Co-location with their compatriots enables multinationals to share information, and to establish mechanisms and tools to lobby as a group and gain legitimacy. Multinationals may also minimize the costs of technological and knowledge spillovers and face lower competition for inputs and skilled labor with the mutual support ecosystem based on the same social-culture background (Puig, Portero, & González-Loureiro, 2017; Urzelai & Puig, 2019).

Research suggests that the externalities from geographical concentration are expected to have important implications for emerging market MNEs such as Chinese MNEs. Firstly, several studies have indicated that firms are not homogeneous in the benefit they receive from the agglomeration effects as well as in the contribution they do to the agglomeration effects (Cantwell & Santangelo, 2002; Chung & Alcácer, 2002; Shaver & Flyer, 2000). This heterogeneity will affect firms' decision whether locating in geographical clustering or not, and their performance as well (Belderbos & Carree, 2002; Buch, Kleinert, Lipponer, Toubal, & Baldwin, 2005). Firms with the best human capital, distributors, suppliers, technologies, and training programs contribute more than they benefit from their competitors. Small and technologically weaker firms, on the contrary, may have little to lose but a lot to gain from the agglomerating (Shaver & Flyer, 2000). In this sense, emerging market MNEs, compared with developed countries

firms, are more willing to locate in a proximity to other firms as they benefit more from geographical clustering and are not concerned about their knowledge outflow due to their lack of strong technological and managerial resources (Gugler & Vanoli, 2015).

Secondly, compared with indigenous firms, foreign investors face additional costs of foreignness or encounter more disadvantages when entering a new foreign market (Hymer, 1960; Zaheer, 1995). They are subject to local discrimination by host country government, consumers, and suppliers as foreigners (Hymer, 1970). International business and management literature shows that one way to overcome 'liability of foreignness' is to depend on strong organizational capabilities and prior international experience (Barnard, 2010; Nachum, 2003). Another effective way by which firms can reduce the costs of foreignness is to adopt an isomorphism strategy (Kostova & Zaheer, 1999; Zaheer, 1995; Zaheer & Mosakowski, 1997). As emerging countries MNEs commonly have limited international business experience and ownership advantages, isomorphic strategies such as imitating other firms that have already located at the site may provide them a powerful means to mitigate the liability of foreignness (Baum & Haveman, 1997; Wu & Salomon, 2016).

5.2.1 Country-of-origin co-location strategy

Geographic concentrations of firms creates opportunities for information and knowledge spillover, the effect of which is particularly strong among firms from the same home country (Tan & Meyer, 2011). The shared cultural backgrounds and languages help to enhance the accuracy of knowledge interpreting and decoding, as well as helping to reduce the distortion of message in knowledge transfer. Proximity to firms with the same home country is supposed to favor vicarious learning from failures of others (Baum, Li, & Usher, 2000). Late movers may alleviate the disadvantage by learning from their compatriot's experience, and thus reduce uncertainty in foreign

markets (Belderbos & Zou, 2009). Moreover, the shared social-cultural background facilitates coordination and the building of a high level of trust among compatriot FDI companies (Miller, Thomas, Eden, & Hitt, 2008). Such a high trust relationship can promote the communication and information transfer and sharing of sensitive local knowledge (Tan & Meyer, 2011). Thus, through these high-trust connections, later entrants can accelerate their learning process in foreign markets.

Foreign investors from the same socio-cultural background tend to have similar operational practices, including training programs and management method, and therefore the spatial clustering of the firms from a particular home country can foster a familiar and comfortable environment that is similar to their community of origin (Beck, 2008). In the country-of-origin cluster, foreign investors may find local supporting facilities that fit their own production system, local skilled labor that is familiar with their home language and culture, and other host country infrastructure including business service and consultancy that can best serve their business practice (Chang & Park, 2005). Later entrants may benefit from agglomeration benefits such as improvements in infrastructure as well as the availability of production factors (Head, Ries, & Swenson, 1995).

Moreover, through being a member of country-of-origin clusters, foreign investors can gain the legitimacy that their compatriots have already achieved in the target markets. Due to the similarity in social-cultural background, the stakeholders such as the host society and the government often form similar opinions about firms from the same home country (Kostova & Zaheer, 1999; Tversky & Kahneman, 1974), resulting in legitimacy spillovers within a given host environment across similar firms (Porac & Thomas, 1990; Stevens & Newenham-Kahindi, 2017). If the number of firms from a given home country increases, it is significantly more likely that the actions conducted

by firms from that country will be gradually accepted by host country stakeholders, and thus later entrants will be more easily perceived as legitimate. Investors can take advantage of the “legitimacy spillover” generated by early entrants from the same home country (Kostova & Zaheer, 1999). They can learn from their compatriots how to respond effectively to legitimacy requirements. Sharing the same home business practices allows entrants to keep up with their compatriots and benefit from the local legitimacy those compatriots have already achieved (Tan & Meyer, 2011).

In addition, co-locating with their compatriots can help foreign investors reduce their liability of outsidership (Johanson & Vahlne, 2009). International business studies have frequently underlined the importance of ‘insidership’ in business networks to a firm’s success (Johanson & Vahlne, 2009). It is through these networks that firms can gain access to the information and resources that they need for their business operations. Thus, it is important to have relevant business network position in the host market (Johanson & Vahlne, 1990). Overcoming the liability of outsidership requires a long process and requires great effort (Fiedler, Fath, & Whittaker, 2017; Schweizer, Vahlne, & Johanson, 2010). In sum, much of the literature confirms that co-locating with firms from the same home country can facilitate new entrants to occupy a certain network position in foreign markets.

Empirical studies have confirmed that multinationals from the same country of origin tend to locate near to each other (Crozet, Mayer, & Mucchielli, 2004; Head, Ries, & Swenson, 1999; Head & Ries, 1996; Head, Ries, & Swenson, 1995). For example, Head et al. (1995) have provided empirical evidence of this same country agglomeration. Their study of the location choices of 751 Japanese manufacturing plants in the USA show that Japanese multinationals prefer to site their plants in areas where there is a high concentration of Japanese investments. Similarly, Korez-Vide and

Bobek (2014) studied the co-location of 123 German and Austrian multinationals in Brazil. Their research indicates that these companies are more likely to invest in Brazilian states where there are prior investments from multinationals from the same country of origin (Korez-Vide, R., & Bobek, 2014).

***Hypothesis 1:** The likelihood of Chinese multinationals choosing to invest in a particular region in the host country is greater if there are more existing investments from Chinese firms.*

5.2.2 Same-industry co-location strategy

Although the country-of-origin agglomeration seems to have a more pronounced effect on improving survival probabilities of Chinese MNEs, local industry clusters in developed countries are also found to attract Chinese multinationals who are motivated to seek advanced technology and managerial resources (Beule, Somers, & Zhang, 2018; Buckley et al., 2007). Chinese firms that are embedded in the home economies with institutional weakness are generally argued to lack ownership-specific advantages, international experience, and the necessary resources for international business. By expanding their business in advanced countries, Chinese multinationals aim to acquire strategic assets for competitive and technological catch up with world leaders (Deng, 2007; Deng, 2009; Deng, Yang, Wang, & Doyle, 2017). Chinese multinationals with the objective of obtaining localized and industry-specific knowledge will benefit most from locating in industry clusters in advanced economies (Bathelt & Li, 2014; Li, 2014; Malmberg & Maskell, 2006).

Locating within high density industrial clusters will involve more knowledge spillover and less own R&D investment (Qiao, Ding, & Liu, 2019). Meanwhile, industry-specific clusters may also increase the incentives for the high-skilled workers mobility between firms, which generate knowledge diffusion locally (Castillo, Figal-

Garone, Maffioli, Rojo, & Stucchi, 2016). Knowledge spillover effect in industry clusters can occur through social contact and professional communication among employees between local firms and Chinese multinationals (Pouder & John, 1996). Knowledge spillover can also occur when Chinese multinationals observe and imitate the superior technology, advanced management and marketing skills possessed by technologically leading firms in the same industry clusters (Blomstrom, Kokko, & Globerman, 2001). Clustering with local firms in the same industry enable Chinese firms to reduce transaction costs, and to keep track of industry trends and the demands of local markets (Mariotti & Piscitello, 1995). Most importantly, Chinese MNEs can gain access not only to the advanced technology, but also the innovative resources and capabilities.

Furthermore, industrial clusters also attract specialized suppliers of inputs and services (Du, Lu, & Tao, 2008; Du, Lu, & Tao, 2008). Industrial clustering improves access to infrastructure and public goods, and clustering of firms with similar demand generates a scale economy in specialized input markets (Krugman, 1990; Porter, 1998). By collocating with local firms in the same industry in advanced economies, Chinese multinationals can take advantage of specialized employees and backward and forward industrial linkage to enhance their quality of product and acquire advanced manufacturing and organizational techniques.

Hypothesis 2: Chinese multinationals are more likely to locate in a subnational region that has already attracted a large share of firms engaged in the same industry.

5.2.3 Co-location strategy under different industry activities

Multinational firms are more likely to separate activities, choosing one location for production, another for sales, and another for research and development (Alcácer, 2006). The activities along the value chain may present different co-location patterns

(Castellani & Lavoratori, 2017), as different activities vary in their degree of knowledge intensity and in the extent of their benefits from geographical clustering (Alcácer, 2006; Burger, van der Knaap, & Wall, 2013; Chacar & Lieberman, 2003; Enright, 2009).

For Chinese MNEs, the major motivation of setting up overseas R&D units is to acquire technical resources by taking advantage of local advanced R&D infrastructure and better technological environment, keeping track of the latest global technology, as well as employing high-quality specialized talents from local markets, with the aim to improve the technological and innovative capabilities of Chinese firms (Chen & Li, 2019; Di Minin, Quan, & Zhang, 2017; Di Minin, Zhang, & Gammeltoft, 2012). In this sense, locations with large talent pools and strong knowledge infrastructure such as technology centers and universities specifically attract Chinese multinationals engaged in explorative research (Demirbag & Glaister, 2010). Chinese multinationals, such as Huawei Technologies, Haier, and ZTE Corporation, have established R&D affiliates within the innovation centers of host countries (Buckley, Cross, Tan, Xin, & Voss, 2008; Cui & Jiang, 2009). Since innovation resources tend to be geographically concentrated in clusters, it can be expected that R&D activities of Chinese multinationals are more likely to co-locate with technologically leading firms in the same industry or cluster in the world centers of excellence. Lack of specific strategic assets in the home country reduces the propensity of Chinese firms to interact with their compatriot firms (Jiang, Holburn, & Beamish, 2016).

Production activity by Chinese multinationals in high-technology industries mostly aims to acquire superior technology, brands, and global distribution channels in advanced countries. High-technology industries create a knowledge-intensive business environment within which firms are more likely innovation-oriented than in a low-technology sector (Li & Bathelt, 2018). In comparison, low-technology and mature

sectors reap the benefits of producing established products at a lower cost instead of exploring new products and technologies (Elia & Mariotti, 2007). The OFDI by low-technology industries is largely driven by ‘push factors’ in domestic markets, including increasing production costs in China, and relocating parts of their production process to take advantage of lower costs of production in foreign countries, mostly in developing countries (Karreman, Burger, & van Oort, 2017; Ozawa & Bellak, 2010). Thus, the production activities by Chinese multinationals in high-tech or knowledge-intensive industries are more likely to locate in industrial clusters.

International marketing and sales by Chinese multinationals have to compete directly with other firms with similar activities for the distribution channels and network (Fan, Cui, Li, & Zhu, 2016). The distribution industry in developed countries is dominated by large-scale chain stores and the network of multinational retail enterprises (Hu & Wang, 2009). Chinese multinationals often have significant disadvantages when competing in the global market and lack the ability to design differentiated products (Deng, 2009; Luo & Tung, 2007). This competitive disadvantage reduces their propensity to interact with others in the same industry. Service activity by Chinese multinationals are characterized by their strong orientation toward downstream activities, such as intensive customization or cultural adaptation processes, to address the specific needs of local customers (Capar & Kotabe, 2003; Goerzen & Makino, 2007; Rugman & Verbeke, 2005). The successful strategies of sales, marketing and service largely depend on locally explicit knowledge of the market demand, business environment, and consumer preferences. The liabilities of foreignness associated with the explicit locational requirements for sales, marketing and service that Chinese multinational encounter can be alleviated by co-locating with their compatriot firms.

***Hypothesis 3a:** The effect of local same-industry externalities in a region on subsequent entry by Chinese multinationals into that region is stronger for investment in R&D and production by high-tech industry relative to other activities.*

***Hypothesis 3b:** The effect of Chinese origin FDI stock in a region on subsequent entry by Chinese multinationals into that region is stronger for investment in marketing, sales and services activities relative to other industry activities.*

5.2.4 State Ownership and co-location strategy

The internationalization of Chinese SOEs reap a range of benefits from home country and they have enjoyed preferential treatment and support provided by central and local government in many aspects, including investment approval, financial support, investment protection, and information collection (Cheung & Qian, 2009; Luo, Xue, & Han, 2010; Ren, Liang, & Zheng, 2012). Enjoying the government-granted advantages, SOEs are less motivated to reduce transaction costs by clustering with other firms in the same industry (He & Wang, 2012).

Moreover, Chinese SOEs usually pursue both political and economic objective when going abroad (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014; Cui & Jiang, 2012). They are closely aligned to political agendas and are required to maintain their strategic orientation in line with national security concerns and a power-building globalization strategy (Child & Rodrigues, 2005; Peng, 2000; Yao, Sutherland, & Chen, 2010; Zhang, Zhou, & Ebberts, 2011). The political affiliation to a certain degree leads Chinese SOEs to suffer from poor legitimacy in foreign countries, especially in developed countries where the market system is relatively efficient (Huang, Xie, Li, & Reddy, 2017; Wu & Chen, 2014). In most cases, Chinese SOEs are perceived by host country stakeholders not simply as independent economic entities but also as political actors (Cui & Jiang, 2009; Cui & Jiang, 2012). Thus, lack of external

legitimacy in the local context makes country-of-origin cluster more attractive to Chinese SOEs as interacting with home country peers may alleviate the disadvantages caused by liability of foreignness to some extent.

Hypothesis 4: The effect of Chinese origin FDI stock in a region on subsequent investment entry by Chinese multinationals into that region is stronger for Chinese state-owned enterprises relative to other enterprises.

5.2.5 Home country cluster effect and co-location strategy

It is well-accepted that firms locate in clusters to benefit from spillover effects from similar firms in the location. The statement can also apply to home industrial clusters which can facilitate the diffusion of specific knowledge related to OFDI activities, such as foreign market demand, investment regulations and business environment. The spillover of this knowledge from more experienced foreign investors to incumbent firms can lower the entry cost to outward investment, thereby contributing to the higher probability of going overseas (Ito, Xu, & Yashiro, 2013). Home industry clusters may also offer advantages to incumbent firms which enhance ownership advantages and so provide the basis for OFDI (Cook, Pandit, Lööf, & Johansson, 2012). Firm-specific advantages might be developed in strong clusters, and such advantages in home markets can be leveraged into overseas markets (Dunning, 2001; Porter, 1990).

However, the rapid growth and development of industrial clusters (SEZ special economic zones, including high-tech industrial development zones, free trade zones, export-processing zones, and others) in China has often been attributed to the policy intervention from local and central government (Frattini & Prodi, 2013; Zeng, Shenkar, Lee, & Song, 2013). Although some industrial clusters are initially set up by market forces, it is the different level of government that provides further support to improve development of clusters (Zeng, 2010). Local governments tend to provide favorable

platforms and preferential policies such as fiscal incentives, production infrastructures and financial support for attracting companies operating in a specific cluster, thus reducing the operational costs for clustered firms. In such industrial clusters with low-cost operational environment, clustered firms may suffer from distortion of resource allocations due to the subsidy and bribes. Their investment strategies may not be sensitive to changes in the market and competitive landscape, and firms cannot adjust their competitive strategies according to the market-demand, technological development, and value chain dynamics. Furthermore, policy intervention disrupts the self-reinforcement mechanism of industrial clusters. Government creates a business environment for industrial clusters within which individual members of clusters have become accustomed to thriving by a low-cost strategy instead of constantly pursuing high-end oriented innovation. As a result, the strategy of going overseas by Chinese firms becomes an effective way to escape institutional constraints in the home country cluster (Witt & Lewin, 2007).

Chinese firms that originate from home clusters will be motivated by some of the reasons for investing abroad for strategic reasons, to enhance their existing advantages and to acquire new ones (Cook, Pandit, Lööf, & Johansson, 2012). Companies from industrial clusters are more likely to pursue competence augmentation strategies (Li & Bathelt, 2018). In contrast to non-clustered firms, firms from home country clusters are getting used to including cluster-based logic in their foreign location strategies (Enright, 1998; Enright, 2000). It will be relatively easier for MNEs that originate from cluster areas to learn how to adapt to cluster setting in foreign markets (Li & Bathelt, 2018). More importantly, since innovation is stimulated by the combination of related, differentiated knowledge, firms have different knowledge bases offering new

opportunities for novel combinations of knowledge and other complementary resources (Hohenthal, Johanson, & Johanson, 2015).

***Hypothesis 5:** The effect of local same-industry externalities in a region on subsequent entry by Chinese multinationals into that region is stronger for Chinese firms that originate from home country clusters relative to non-clustered firms.*

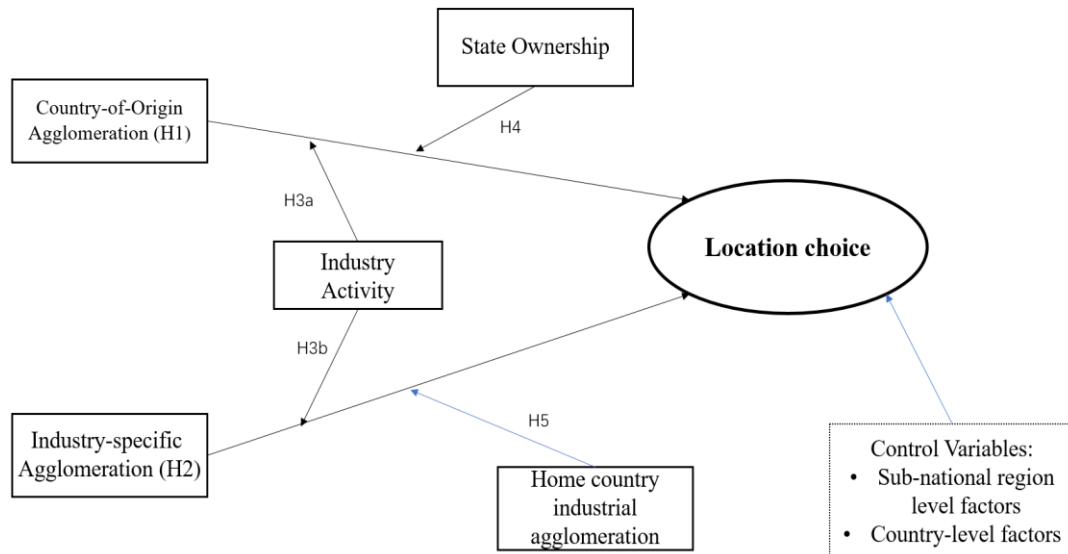


Figure 5.1 Analytical Framework for the Empirical Study II

5.3 Research Methodology

5.3.1 Model specification

This study is designed to estimate the major factors that matter in the location decision of Chinese multinational enterprises at the sub-national level across foreign countries. Following Hayakawa and Tsubota (2014), I choose state or administrative regions as the sub-national level. To account for similarity among states within the same country, I employ the nested logit model (Crozet, Mayer, & Mucchielli, 2004; Hayakawa & Tsubota, 2014; Hong & Chin, 2007).

Previous empirical work on location choice habitually incorporated the conditional logit models (Lamin & Livanis, 2013; McFadden, 1984). One of the important assumptions of the conditional logit model is known as independence of irrelevant

alternatives (IIA), which implies that the probabilities of choices between any pairs of alternatives should be equally substitutable/comparable for decision makers or independent of characteristics of any third selection (Crozet, Mayer, & Mucchielli, 2004; Disdier & Mayer, 2004). However, this assumption may not hold in my case, as some spatial alternatives (e.g. sub-national location within the same nation) are more likely to be substitutable than others (e.g. sub-national location in different nations).

Introducing a nested logit model (NLM) provides a better approach to reducing the risk for the violation of restrictive IIA property by putting alternatives that contain a higher level of substitutability into the same subset/nest, and at the same time, controlling endogeneity problem that stem from unobserved factors in each subset/nest. This is not only to maintain a similar level of substitutability within each subset, but also to take cross-nests replaceable variations into account (Cheng, 2007).. Compared with conditional logit model, nested logit model can provide a more useful tool to explore the hierarchical structure of location decision by MNEs in host subnational region, and geographic/industrial cluster specifically (Iammarino & McCann, 2013; Disdier & Mayer, 2004). The hierarchical representation of nested logit framework is consistent with the decision making process by Chinese MNEs who looks both at across countries and subnational level within these countries (McDonald et al, 2018; Mataloni, 2011). This is an important consideration since a large body of priors studies on the relationship between MNEs and locations are based on only one level of analysis, for example the national/country level of analysis prevail in traditional IB literatures (Buckley et al., 2007; Enright, 2009) or the subnational regional level of analysis within regional economics and economic geography field (Head & Mayer, 2004; Belderbos & Carree, 2002). This only one layer of analysis may impose a potentially erroneous model of the decision making process (Sethi, Judge, & Sun, 2011; Chan, Makino, &

Isobe, 2010). As Iammarino and McCann (2013:69) stated that these two levels of analysis cannot be divided apart, and both stages of decision are essential for the optimal location of MNEs.

In short, I am concerned with providing greater insights into hierarchical decision structure of ofdi location made by Chinese multinationals, that is, a sequential choice process in which the choice of host country preceding that of a subnational region location (Mataloni, 2011). From this sense, the use of nested logit estimator in my study is appropriate and seems to be valid, because this econometric model can reflect both of the features, that is, the choice of a sub-national region is conditional on the previous choice of the relevant country and the country choice takes into account the characteristics of the different regions belonging to a country (Dunning & Mucchielli, 2001:133). Using nested logit model not only allows us to test the appropriateness of hierarchical structure of Chinese MNEs location, but also examine the effects of explanatory variables on location choice both at the national level and sub-national region level within these countries.

Based on the nested logit specification, the location decision process of multinational firms in this thesis can be assumed to follow two steps (Figure 5.2), investors first choose a country within Asia-Pacific, Europe or America, and then select a state or province belonging to this country as the second step. This can be represented as a multiple-level tree structure in which the upper-level of the tree contains several countries, and the bottom-level contains the sub-national regions belonging to each country (Disdier & Mayer, 2004). All levels of decisions are not independent. The choice of a sub-national state is dependent on the choice of the country, and in selecting the country, both location characteristics at sub-national level and country-level are considered by decision makers.

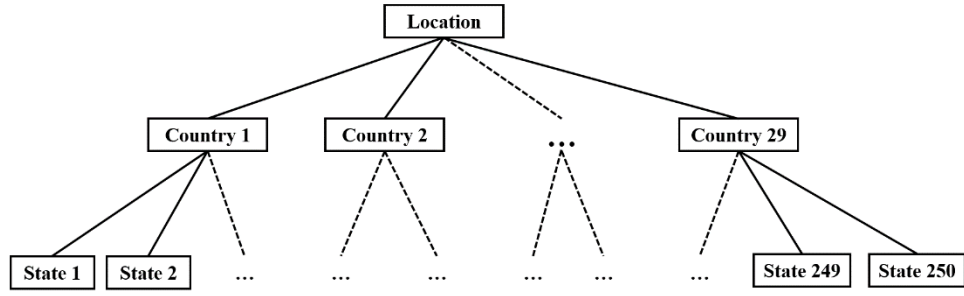


Figure 5.2 Structure of hierarchical location decision

Suppose firm i first chooses country r within the whole set $R = (1, \dots, r \dots R)$ of possible location regions, and then chooses destination state l among all the alternatives denoted $L = (1, \dots, l, \dots, N)$ belonging to country r as their destination location. Like the conditional logit model, the nested logit model is also consistent with random utility maximization (McFadden, 1978). Being located in state l belonging to the country r yields a profit: $\pi_{lr} = V_{lr} + \varepsilon_{lr}$, where V_{lr} is a function of observable characteristics of location l , $V_{lr} = bX_{lr} + aY_r$.

The probability of firm i to locate in sub-national region l belonging to country r can be expressed as: $p_{rl}^i = p_{l|r}^i * p_r^i$

where, $p_{l|r}^i$ is the probability of firm i choosing sub-national state/province l conditional on the choice of country r , $p_{l|r}^i = \frac{\exp(\ln \pi_{lr}^i)}{\sum_{l'=1}^N \exp(\ln \pi_{l'r}^i)}$, $l \neq l'$;

And, p_r^i is the probability of firm i choosing country r which is decided by both of the characteristics of this country and the characteristics of all the sub-national states/provinces belonging to this country. It can be expressed as:

$$p_r^i = \frac{\exp(\ln \pi_r^i + \sigma_r I_r)}{\sum_{r'=1}^R \exp(\ln \pi_{r'}^i + \sigma_{r'} I_{r'})}, r \neq r';$$

Where $I_r = \ln \sum_{l'=1}^N \exp(\ln \pi_{l'r}^i)$ is called as inclusive value (IV), which measures the maximum utility that the decision maker can expect from the effect of location

characteristics of all the alternatives on each corresponding choice of country r ; σ_r is the estimated coefficient or the inclusive value coefficient reflecting the degree of independence in unobserved elements among all the alternatives in subset r .

It is acknowledged that the nesting structure would be valid under the condition that inclusive value coefficients σ_r are statistically significant with the range of between 0 and 1 ($0 < \sigma_r < 1$) (Mayer & Mucchielli, 2001; McFadden, 1984). The value of σ_r equals to be one meaning all the alternatives are complete independence without correlation within the nest, thus the nested logit model collapses into the conditional logit model. $\ln \pi_{lr}^i$ and $\ln \pi_r^i$ represent the natural log of expected profit of firm i choosing state/province l and country r respectively.

$$\text{Thus, } p_{rl}^i = \frac{\exp(\ln \pi_{lr}^i)}{\sum_{l'=1}^N \exp(\ln \pi_{l'r}^i)} * \frac{\exp(\ln \pi_r^i + \sigma_r I_r)}{\sum_{r'=1}^R \exp(\ln \pi_{r'}^i + \sigma_{r'} I_{r'})}, l \neq l', r \neq r'.$$

5.3.2 Sampling and data collection

The primary data of this study is collected from *fDi Markets*, the database which is maintained by *fDi intelligence* from *Financial Times*, and records cross-border Greenfield investment projects since the year of 2003 based on formal media announcements by financial information providers, industry organizations, and publication companies (Burger, van der Knaap, & Wall, 2013). This database provides comprehensive information on the investing company, the parent company, the type of projects, the source country, source province, the destination country, the destination state and city, and the industry sector in which the investment is made. One of the biggest advantages of this database, compared with MOFCOM and Bureau van Dijk dataset, is that the location information of Chinese investors at a sub-national level (i.e. destination state, administrative region and destination city) can be easily accessed.

Another advantage of this database is the availability of industry classification for each investment project, which can be matched to North American Industry Classification System (NAICS) and US SIC. The validity and quality of this database has been confirmed by previous studies in the international business arena (Amighini, Rabellotti, & Sanfilippo, 2013; Castellani & Pieri, 2013; De Beule & Bulcke, 2012; De Beule, Somers, & Zhang, 2018; Karreman, Burger, & van Oort, 2017).

The initial dataset comprises 5284 Greenfield investment projects made by Chinese multinationals during the period of 2003-2018. The study is restricted to non-financial industries the investment project in financial sector is excluded due to its special accounting standard and regulation requirement. Investment projects made by Chinese multinationals in tax havens including Hong Kong, Singapore, Virgin Island and Cayman Island are dropped out from the full sample, because OFDI from China to these locations is most likely to be motivated by reducing the global tax burdens instead of corporate strategic considerations (Deng, Yan, & Sun, 2019; Jones, 2016; Lu, Liu, Wright, & Filatotchev, 2014). This approach is also more appropriate for supporting the purpose of this study on the industrial agglomeration with the sub-national level analysis. The full list of tax havens is drawn from the published list in OECD (2009) and Hines (Hines, 2010). Furthermore, considering the sub-national level analysis in the study, the sampling is constrained to those investment projects that are located in sub-national regions in which the data on economic indicators can be available. The investment projects in which the destination is not specified are deleted. Each sampling project can be allocated to one of the small geographic regions (e.g. state or province) in the foreign country on the basis of destination state and administrative region (De Beule, Somers, & Zhang, 2018).

Therefore, the final sample is reduced to the 2728 outward investment projects made by Chinese investors in 250 sub-national regions across 29 countries during 2003-2018 that is described in Table 5.8.

Table 5.1 shows the number of cross-border greenfield investments by Chinese multinationals in each of the countries. And Table 5.2 indicates the top 20 subnational administrative regions (e.g. provinces/states) that receive the largest number of Chinese investment projects during 2003-2018.

Table 5.1 Number of Entries of Chinese MNEs (2003-2018)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Asia-Pacific																
Australia	3	2	3	2	3	8	7	8	16	8	7	9	8	10	9	12
India	2	3	4	3	6	8	4	15	6	8	9	12	23	34	18	30
Indonesia	0	2	2	2	5	3	3	2	9	1	8	9	10	4	8	12
Japan	3	2	1	2	4	0	1	5	3	7	5	8	4	10	15	7
South Korea	1	0	0	0	0	4	1	0	0	1	5	8	5	6	5	4
New Zealand	0	0	0	1	0	0	0	0	1	1	1	1	2	2	9	2
Western Europe																
Austria	0	0	0	0	0	1	0	0	3	1	0	1	1	3	1	0
Belgium	0	0	2	0	1	0	2	4	4	2	4	8	2	3	4	4
Denmark	0	0	0	1	1	3	1	2	0	2	3	6	4	5	3	3
Finland	0	0	0	0	0	0	0	1	0	1	0	1	1	7	1	6
France	0	5	4	3	6	5	7	7	9	4	15	15	6	14	18	13
Germany	0	4	3	4	5	17	59	64	68	58	51	42	59	57	60	12
Italy	1	2	3	2	1	5	7	4	3	3	2	0	0	2	2	3
Netherlands	0	0	3	1	2	3	7	4	3	0	6	8	9	10	10	7
Spain	0	0	0	0	3	11	1	4	4	2	2	4	1	7	5	5
Sweden	1	1	2	4	1	0	3	2	1	0	1	1	1	3	3	0
Switzerland	0	0	0	0	2	0	3	1	2	2	1	0	1	1	6	4
UK	1	6	10	2	26	7	7	7	13	11	15	16	29	29	25	16
Eastern Europe																
Czech	0	0	1	1	0	0	0	1	0	3	1	0	3	7	1	0
Poland	0	1	0	1	1	0	2	2	7	0	4	2	2	6	4	3
Romania	2	0	0	1	1	1	0	1	3	4	5	5	0	2	2	0
Russia	4	2	12	7	3	3	9	6	7	4	8	7	16	14	26	23
Slovakia	0	0	0	0	0	2	0	0	0	1	0	1	1	1	1	1
North America																
Canada	0	2	2	1	2	3	0	2	9	7	6	6	5	7	4	9
US	1	2	9	9	14	17	27	34	36	29	41	58	62	64	70	81
Latin America																
Brazil	3	3	0	2	3	2	4	4	12	7	4	8	13	4	6	6
Colombia	0	0	0	0	1	1	1	1	1	0	0	1	1	2	1	1
Mexico	0	0	0	2	4	2	2	2	4	0	0	11	9	11	14	10
Africa																
South Africa	0	1	0	2	1	4	1	3	5	9	3	9	6	3	3	7

Table 5.2 Top 20 sub-national administrative regions in terms of Entry by Chinese MNEs (2003-2018)

Rank	Region	Country	Number of Entry
1	Nordrhein-Westfalen	Germany	257
2	California	United States	167
3	Hessen	Germany	122
4	Greater London	United Kingdom	94
5	Ile-de-France	France	82
6	Bayern	Germany	55
7	Baden-Wuerttemberg	Germany	55
8	Kanto	Japan	53
9	Michigan	United States	44
10	New York	United States	42
11	Sao Paulo	Brazil	41
12	New South Wales	Australia	40
13	Maharashtra	India	39
14	Central Federal District	Russian Federal	36
15	Far Eastern Federal District	Russian Federal	35
16	Texas	United States	34
17	Victoria	Australia	33
18	Privolzhsky Federal District	Russian Federal	31
19	Ontario	Canada	27
20	Noord-Holland	Netherlands	26

Variable measurement

Dependent variables

The dependent variable, *location choice*, is a binary variable coded 1 if Chinese multinationals conducted a new project in a specific subnational region among a subset of subnational regions of the host country, and 0 otherwise.

Independent variables

Sub-national level variables

Agglomeration variables: Hypothesis 1 and Hypothesis 2 refer to agglomeration forces we capture them in the following way. Following Tan and Meyer (2011), country-of-origin agglomeration is defined as the cumulated number of all subsidiaries ultimately owned by Chinese investors in a given destination state in the year before new entry. Same industry agglomeration is defined as the cumulated number of firms,

no matter whether subordinating to local company or foreign company, with similar industrial activities (according to the industrial classification in Tables 5.3 and Table 5.9) located in a given destination state in the year before new entry. The two measures are calculated on the basis of the entire population of firms that were collected through the Orbis database.

Following the traditional literature on location study in new economic geography (Crozet, Mayer, & Mucchielli, 2004; Head & Mayer, 2004; Head, Ries, & Swenson, 1995; Krugman, 1991), the location outcome of industrial firms is conditional on where they can maximize their expected profits as well as minimizing the production and social cost. Thus, this study includes demand size, production factor costs and fixed entry cost that are related with the attractiveness of destination region in host country as control variables. The supply factor and demand factor variables are measured at the state or administrative region level, and variables on fixed entry cost are measured at the host country level.

Supply variable: Regarding the supply factors, *unemployment rate* measuring labor availability in the destination state is introduced in the model. A high level of unemployment rate would discourage inward FDI as it is often treated as a signal of labor market imperfection, but it also will attract foreign investment because it means there is large pool of workers available (Boudier - Bensebaa, 2005; Disdier & Mayer, 2004).

Demand variable: Market-seeking FDI is one of the most important motivations for Chinese MNEs in host countries. The potential scale of market size is captured by the *absolute GDP* in the destination state, which can be expected to be related positively to FDI (Head & Mayer, 2004). *GDP per capita* measures the consumers' level of wealth in the host region. A large and growing market allows economies of large-scale

production and offers promising prospects which stimulate new investment (Boudier - Bensebaa, 2005).

Country-level variables: This thesis also controlled four sets of variables at the national level: distance, natural resources, strategic asset endowment and political risk. Ghemawat's (2001) four-dimensional approach is employed to measure the potential effect of cross-national difference in economic development, administrative regulation, cultural values and geographic mobility on FDI location (Ghemawat, 2001; Ghemawat, 2003). *Cultural distance* is defined as the degree of differences in national cultural systems and cultural norms; *Administrative distance* is measured as difference in language, religion and legal system; *Geographic Distance* is calculated as the distance between geographic centers of countries; and *Economic distance* is measured as differences in economic development and macroeconomic characteristics. *Natural resource endowment* is measured by the ratio of ore and metal exports to merchandise exports of host country. *Strategic asset endowment* is proxied by total (resident plus non-resident) annual patent registrations in the host country. *Political risk* is measured by the host country's political risk rating by International Country Risk Guide.

Moderating variables

Value-chain activities: The agglomeration may have different effects on firms engaged with different activities (Jiang, Holburn, & Beamish, 2016; Karreman, Burger, & van Oort, 2017). In order to examine whether there is a difference between the location strategies by Chinese multinational with different industry activity, I partition all the industry activities of sampling firms into five groups according to the sector classification, and construct dummy variables for each category of industry activities. This is helpful to examine hypothesis 3a and hypothesis 3b.

State-ownership: Investing companies are identified as SOEs and coded the value 1 whenever the global ultimate owner is a public authority, state or government. The information on global ultimate owner is retrieved from Orbis database. Other information sources are also used, such as lists of SOEs issued by SASAC (State-owned Assets Supervision and Administrative Commission of the State Council) and their local branches, company annual reports, and company websites. This is helpful to examine hypothesis 4.

Home country industry agglomeration: The industrial agglomeration index is measured by the location entropy index according to the existing studies (Cutrini, 2009). Specifically, it is province-based measure of industry concentration. The specific calculation method is

$$LE = \frac{X_{ij} / \sum_i X_{ij}}{\sum_j X_{ij} / \sum_i \sum_j X_{ij}}$$

In this formula, j represents the province, i represents the industry, $\sum_i X_{ij}$ is the gross product of industry i in province j , $\sum_i X_{ij}$ is the gross domestic product of province j , $\sum_j X_{ij}$ denotes the gross product of industry i in China, and $\sum_i \sum_j X_{ij}$ denotes the gross domestic product of China. In this study, the total industrial output value of each province is selected to calculate the location entropy to measure the degree of industrial agglomeration. It is generally believed that if $LE > 1$, then compared with other regions, the agglomeration of industry i in j th province is relatively apparent (Ellison & Glaeser, 1997). Otherwise, there is no significant industrial agglomeration.

Table 5.3 Investment Categories by Industry Activities

Category	Activities
Headquarters	Headquarters
Research & Development	Design, development, & testing Education & training Research & development
Sales & marketing	Business services Sales, marketing, & support
Production	Electricity Manufacturing Recycling Construction Extraction
Support & Servicing	Customer contact centers Maintenance Shared service centers Technical support centers Information & communication technology & Internet infrastructure Logistics

Table 5.4 Variables and Measurements

Measure	Description	Data Source
Dependent variables		
<i>Location choice</i>	1 for enter in destination states or administrative region <i>j</i> of given country <i>i</i> in year <i>t</i> , otherwise as 0	<i>fDi</i> Markets Database
Agglomeration variables		
<i>Country-of-origin agglomeration</i>	Log total number of Chinese firms in states/provinces <i>j</i> of country <i>i</i> in year <i>t-1</i>	Orbis Database
<i>Same-industry agglomeration</i>	Log total number of foreign firms and local firms in a certain industry in the state/provinces <i>j</i> of country <i>i</i> in year <i>t-1</i>	Orbis Database
Moderating variables		
<i>State-owned enterprise</i>	Dummy variable that takes 1 if the global ultimate owner is a public authority, state or government	Orbis Database
<i>Home-industrial agglomeration</i>	Measured by the location entropy index	Construct
<i>IndustryActivity_Headquarters</i>	Dummy variable that takes value 1 if investment is in headquarters, and 0 otherwise	<i>fDi</i> Markets Database
<i>IndustryActivity_R&D</i>	Dummy variable that takes value 1 if investment is in research and development, and 0 otherwise	<i>fDi</i> Markets Database
<i>IndustryActivity_Sales&Market</i>	Dummy variable that takes value 1 if investment is in sales or marketing, and 0 otherwise	<i>fDi</i> Markets Database
<i>IndustryActivity_Production</i>	Dummy variable that takes value 1 if investment is in production, and 0 otherwise	<i>fDi</i> Markets Database
<i>IndustryActivity_Support &Service</i>	Dummy variable that takes value 1 if investment is in support or business service, and 0 otherwise	<i>fDi</i> Markets Database
Regional-level variables		
<i>Market Potential</i>	Regional GDP is used to measure the market size in the certain region	OECD Regional Database
<i>RGDP per capita</i>	Per capita GDP level in the certain region to capture the market demand	OECD Regional Database
<i>Unemployment Rate</i>	The percentage of unemployment population in the labor force aged 15-64 in the state/province <i>j</i> of country <i>i</i> to indicate the cost of production factors in the certain region	OECD Regional Database
Country-level variables		
<i>Cultural Distance</i>	Differences in national culture systems and cultural norms	World Value Survey
<i>Administrative Distance</i>	Difference in language, religion and legal system	CIA Factbook & La Porta et al., 1998
<i>Geographic Distance</i>	Great circle distance between China and host country according to the coordinates of the geographic center of the countries	CIA Factbook
<i>Economic Distance</i>	Differences in economic development and macroeconomic characteristics	World Development Indicators
<i>(Host country)Political Risk</i>	Political risk rating by International Country Risk Guide	International Country Risk Guide
<i>(Host country) Natural resource</i>	Share of ores and metals on total exports	World Development Index
<i>(Host country)Strategic asset</i>	Total resident plus non-resident annual patent registrations	World Development Index

5.4 Research Results

For hypothesis 1, the coefficient of country-of-origin agglomeration is positive and statistically significant. The result indicates that there is a strong tendency for Chinese firms to invest in host subnational regions with higher Chinese OFDI concentration. Therefore, Hypothesis 1 is confirmed.

As suggested in theoretical argument, firms from the same country share the same language, cultural identity, ethnic connections and similar social networks, and so it is easier for multinationals from the same country to enter new foreign markets with similar challenges (Karreman, Burger, & van Oort, 2017). Chinese firms can greatly improve the confidence and efficiency of outward investment by learning from previous Chinese firms that have already been operating in the same host sub-national region, especially when the uncertainty and risk increase in the host region (Liu, Jiang, Zhang, & Chen, 2018; Yuan & Pangarkar, 2010).

The results in Table 5.5 show that the variable of industry-specific agglomeration has a significantly positive relationship with the location choice of Chinese MNEs in host sub-national region, offering strong support to hypothesis 2. One of the explanations is that knowledge spillovers from local and foreign firms in the same industry enable Chinese multinationals to have more opportunities to learn about the advanced technology and obtain innovative resources in host subnational region (Deng, 2009).

For Hypothesis 3, the effect of country-of-origin agglomeration and industry-specific agglomeration is expected to differ among different industry activities. The results in model 4 of Table 5.5 show that the effect of same industry agglomeration has a significantly positive effect on the market entry in R&D activities but no significant effect on the investment in supporting and service activities. However, it was not

predicted that the coefficient of production activities would be negative and statistically significant. The results indicate that the industry-specific agglomeration have a strong effect on the probability of the market entry of Chinese multinationals engaged in R&D activities, but do have a negative effect on the location entry of Chinese MNEs engaged in production activities. Thus, hypothesis 3a is partially supported.

With regard to the potential differentiated effect of country-of-origin in different industry activities, it is found in model 5 of Table 5.5 that the coefficient is significantly positive for sales and marketing activities, while the coefficient of both R&D, production and supporting service activities show a negative and statistically significant sign. These findings largely support hypothesis 3b, and highlight the relative importance of country-of-origin effect in the location entry of Chinese multinationals in sales and marketing functions.

From model 2 in Table 5.5, Chinese state-ownership enterprise is found to have a significantly negative effect on the relationship between country-of-origin agglomeration and the probability of foreign market entry, which suggest that Chinese SOEs would locate away from rather than co-locate with home country peers in foreign sub-national regions. Thus hypothesis 4 is not supported. The result from model 3 in table 5.5 indicates that the coefficient of home country industry agglomeration shows a relative strong effect, providing strong support for hypothesis 5.

From Model 1 in Table 5.5, it can be observed that most of the control variables are significant and have the expected sign. The variables that are under empirical test only at subnational (regional) level are regional GDP, GDP per capita and regional unemployment rate. Firstly, the market potential at the subnational level that is proxied by regional GDP is found to have significantly positive relation with location choice of Chinese investors. This result is consistent with that of most studies in OFDI location

(Buckley, 2007; Wang, Hong, Kafouros, & Wright, 2012), indicating that Chinese multinationals are strongly driven by market-seeking motivation to invest in regions with large market and high market potential. Secondly, the result in Model1 shows regional GDP per capita have the expected sign but are not significant. The insignificance of this control variable may reflect a need to re-examine this factor at the country level (Mataloni Jr, 2011). Thirdly, the coefficient of regional unemployment is positive and statistically significant, which suggests the availability of employment in sub-national region also attracts Chinese investors.

Furthermore, I also test the potential explanatory factors at the national level, that is, CAGE distance, political risk, natural resources and patent application. First, the result in model 1 of table 5.5 indicates that the coefficient is negative for both cultural distance and geographic distance, although only the effect of cultural distance is statistically significant. For the administrative distance and economic distance, the coefficient is positive, but only the administrative distance is significant. These findings show that Chinese MNEs are attracted to foreign markets with a lower cultural distance and a higher administrative distance. It is consistent with the argument of institutional escapism (Witt & Lewin, 2007) that dysfunctional institutional environments in the home market push Chinese firms going overseas to seek better institutions. Meanwhile, it also implies that greater differences in culture systems could deter Chinese multinational to enter (Yan, Hong, & Ren, 2010). Second, the coefficient of political risk has no significant effect although it shows an expected positive sign on location entry of Chinese multinationals. Third, the coefficient of natural resources is significantly positive, which indicates that Chinese investors are attracted by countries with relatively high resource endowments (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007). Finally, the result shows that the increase in the number of patent applications

as a measure for strategic-asset endowments in the host country could enhance the probability of the location entry of Chinese multinationals.

Table 5.5 Results of Two-stage Nested Logit Regression Models

	Model1	Model2	Model3	Model4	Model5
Main variables					
<i>Same-industry Agglo.</i>	0.086*** (0.015)	0.075*** (0.019)	0.051** (0.018)	0.092** (0.033)	0.080*** (0.017)
<i>Country-of-origin Agglo.</i>	0.314*** (0.033)	0.339*** (0.034)	0.425*** (0.038)	0.345*** (0.040)	0.470*** (0.042)
Control variables					
Sub-national region variables					
<i>RGDP</i>	0.984*** (0.131)	1.172*** (0.141)	2.040*** (0.213)	1.979*** (0.218)	0.672*** (0.068)
<i>RGDP per capita</i>	0.152 (0.126)	0.118 (0.130)	0.590*** (0.158)	0.585*** (0.156)	-0.080 (0.091)
<i>Regional unemployment</i>	0.017 + (0.009)	0.019+ (0.010)	0.021* (0.011)	0.021* (0.011)	0.019* (0.008)
Country-level variables					
<i>Cultural distance</i>	-0.171*** (0.042)	-0.177*** (0.042)	-0.085* (0.041)	-0.087* (0.041)	-0.272*** (0.036)
<i>Administrative distance</i>	0.036** (0.013)	0.037** (0.012)	0.022+ (0.013)	0.022+ (0.013)	0.043*** (0.012)
<i>Geographic distance</i>	-0.139 (0.125)	-0.165 (0.133)	-0.513** (0.174)	-0.479** (0.175)	0.068 (0.089)
<i>Economic distance</i>	0.023 (0.111)	0.067 (0.115)	0.211 (0.132)	0.203 (0.133)	-0.169+ (0.093)
<i>Political Risk</i>	0.021 (0.014)	0.019 (0.014)	0.030* (0.014)	0.031* (0.014)	0.016 (0.013)
<i>Natural Resource</i>	0.013+ (0.009)	0.010 (0.009)	0.002 (0.012)	0.001 (0.012)	0.020** (0.007)
<i>Patent</i>	0.114+ (0.078)	0.162+ (0.085)	0.676*** (0.116)	0.646*** (0.118)	0.144** (0.050)
Moderating variables					
<i>Home-country Agglo. *State-owned enterprise</i>		-0.055+ (0.028)			
<i>(Host) Same-industry Agglo. *Home-industrial Agglo.</i>			0.066** (0.022)		
<i>Same-industry Agglo. *IndusAct_R&D</i>				0.142** (0.050)	
<i>Same-industry Agglo. *IndusAct_Sales &Market</i>				-0.007 (0.037)	
<i>Same-industry Agglo. *IndusAct_Production</i>				-0.051+ (0.037)	
<i>Same-industry Agglo. *IndusAct_Support&Service</i>				0.022 (0.058)	
<i>Home-country Agglo. *IndusAct_R&D</i>					-0.179*** (0.047)
<i>Home-country Agglo. *IndusAct_Sales &Market</i>					0.128** (0.040)
<i>Home-country Agglo. *IndusAct_Production</i>					-0.434*** (0.040)
<i>Home-country Agglo. *IndusAct_Support&Service</i>					-0.217*** (0.054)
LR test for IIA	337.65***	322.65***	494.99***	485.4***	254.5***
No. of observations	682000	682000	682000	682000	682000
No. of cases	2728	2728	2728	2728	2728
Log likelihood	-13036	-13055	-13088	-13080	-12800

Note: Model 1 is testing hypothesis 1 and 2; model 2 tests hypothesis 4; model 3 tests hypothesis 5; and model 4 and 5 is testing hypothesis 3.

+p<0.10, * p<0.05, ** p<0.01, *** p<0.001;

Clustered standard errors are in parentheses.

5.5 Further Analysis

In further analysis, I estimate the conditional logit model for comparison. The results are reported in Table 5.6.

Table 5.6 Statistical results of conditional and nested logit model estimations

	NestedLogitModel	ConditionalLogitModel
Main variables		
<i>Same-industry Agglo.</i>	0.027 (0.029)	0.003(0.029)
<i>Country-of-origin Agglo.</i>	0.450*** (0.041)	0.447***(0.040)
Control variables		
Sub-national region variables		
<i>RGDP</i>	0.494*** (0.064)	0.731***(0.032)
<i>RGDP per capita</i>	-0.042 (0.090)	-0.244***(0.058)
<i>Regional unemployment</i>	0.017 * (0.008)	0.007(0.006)
Country-level variables		
<i>Cultural distance</i>	-0.263***(0.036)	-0.250***(0.024)
<i>Administrative distance</i>	0.038***(0.012)	0.050***(0.010)
<i>Geographic distance</i>	0.115 (0.082)	0.002(0.046)
<i>Economic distance</i>	-0.185*(0.090)	-0.272***(0.050)
<i>Political Risk</i>	0.019(0.013)	0.004(0.010)
<i>Natural Resource</i>	-0.021** (0.007)	-0.001(0.003)
<i>Patent</i>	0.188*** (0.046)	-0.021(0.018)
Moderating variables		
<i>Home-country Agglo. *State-owned enterprise</i>	0.019(0.020)	0.020(0.020)
<i>(Host) Same-industry Agglo.</i>		
<i>*Home-industrial Agglo.</i>	0.059**(0.020)	0.063***(0.020)
<i>Same-industry Agglo. *</i>		
<i>IndusAct_R&D</i>	0.185***(0.044)	0.177***(0.045)
<i>Same-industry Agglo. *</i>		
<i>IndusAct_Sales &Market</i>	-0.030(0.031)	-0.017(0.031)
<i>Same-industry Agglo. *</i>		
<i>IndusAct_Production</i>	0.048(0.033)	0.014(0.031)
<i>Same-industry Agglo. *</i>		
<i>IndusAct_Support&Service</i>	0.059(0.053)	0.033(0.053)
<i>Home-country Agglo. *</i>		
<i>IndusAct_R&D</i>	-0.244***(0.048)	-0.257***(0.051)
<i>Home-country Agglo.</i>		
<i>*IndusAct_Sales &Market</i>	0.139***(0.040)	0.145***(0.042)
<i>Home-country Agglo.</i>		
<i>*IndusAct_Production</i>	-0.428***(0.041)	-0.439***(0.040)
<i>Home-country Agglo.</i>		
<i>*IndusAct_Support&Service</i>	-0.232***(0.056)	-0.247***(0.058)
No. of observations	682000	682000
No. of cases	2728	2728

+p<0.10, * p<0.05, ** p<0.01, *** p<0.001;
Standard errors are in parentheses.

The findings show that Chinese multinationals prefer to invest in subnational regions of host countries in which a large number of Chinese investors has concentrated, and those with large market size and low rate of unemployment. The coefficient for distance between China and host country in terms of cultural, administrative and economic

dimension is significant. Among agglomeration effect by value-added activities, the significantly positive result is found in industry-specific agglomeration of R&D activities. In comparison, all the value-added activities show the collocation tendency with regard in country-of-origin agglomeration.

Table 5.7 Two-stage nested logit estimations by different economic region

	APEC	EuropeUnion	Others
Main variables			
<i>Same-industry Agglo.</i>	0.105***(0.032)	0.067(0.053)	0.001(0.028)
<i>Country-of-origin Agglo.</i>	0.046*(0.022)	0.450***(0.068)	0.045(0.142)
Control variables			
Sub-national region variables			
<i>RGDP</i>	-0.064***(0.017)	0.099(0.061)	0.034(0.108)
<i>RGDP per capita</i>	0.139***(0.038)	0.324**(0.118)	0.017(0.051)
<i>Regional unemployment</i>	0.012*(0.005)	0.049***(0.011)	0.008(0.023)
Country-level variables			
<i>Cultural distance</i>	0.113(0.103)	-0.219***(0.053)	-0.168(0.116)
<i>Administrative distance</i>	0.016(0.017)	0.725(12.496)	0.028(0.036)
<i>Geographic distance</i>	0.771***(0.088)	-4.015**(1.327)	-0.618***(0.180)
<i>Economic distance</i>	-0.156(0.158)	1.213***(0.219)	-0.059(0.464)
<i>Political Risk</i>	-0.014(0.023)	-0.693(12.496)	0.042(0.034)
<i>Natural Resource</i>	0.021*(0.010)	-0.368***(0.075)	0.051+(0.026)
<i>Patent</i>	0.672***(0.075)	0.780***(0.067)	1.038***(0.289)
Moderating variables			
<i>Home-country Agglo.</i>			
<i>*State-owned enterprise (Host) Same-industry Agglo.</i>	0.003(0.008)	0.012(0.028)	-0.001(0.005)
<i>*Home-industrial Agglo.</i>	0.029*(0.011)	0.031(0.035)	0.011(0.037)
<i>Same-industry Agglo. *</i>			
<i>IndusAct_R&D</i>	0.095*(0.041)	0.056(0.075)	0.044(0.166)
<i>Same-industry Agglo. *</i>			
<i>IndusAct_Sales &Market</i>	-0.037(0.028)	0.084(0.063)	-0.003(0.029)
<i>Same-industry Agglo. *</i>			
<i>IndusAct_Production</i>	-0.013(0.026)	0.257***(0.077)	-0.002(0.028)
<i>Same-industry Agglo. *</i>			
<i>IndusAct_Support&Service</i>	0.068+(0.038)	-0.110(0.070)	0.045(0.161)
<i>Home-country Agglo. *</i>			
<i>IndusAct_R&D</i>	-0.042(0.026)	-0.228***(0.067)	-0.042(0.134)
<i>Home-country Agglo.</i>			
<i>*IndusAct_Sales &Market</i>	0.061*(0.026)	0.044(0.051)	0.015(0.061)
<i>Home-country Agglo.</i>			
<i>*IndusAct_Production</i>	-0.030(0.021)	-0.463***(0.066)	-0.038(0.120)
<i>Home-country Agglo.</i>			
<i>*IndusAct_Support&Service</i>	-0.041(0.027)	-0.100(0.074)	-0.042(0.132)
No. of observations	98701	152915	14028
No. of cases	1109	1285	334

+p<0.10, * p<0.05, ** p<0.01, *** p<0.001;
Clustered standard errors are in parentheses.

I also check the estimation model by partitioning the set of whole sample into several subgroups. The study employs different types of upper-level decisions for alternative analysis in which the selection of the first-layer is based on the (supranational) regional economic blocs. From Table 5.7, the decision in model 1 is to

estimate the sampling firms investing in countries that have joined APEC; the decision in model 2 is to estimate the Chinese investment in countries that belongs to European Union, and the decision in model3 is to locate in other supranational regions.

5.6 Summary

This study examines two kinds of agglomeration for Chinese OFDI at (host) subnational region level, and the following results are confirmed based on the analysis of a sample of Chinese OFDI projects in 250 subnational regions of foreign countries from 2003-2018.

Firstly, there is an obvious agglomeration effect on host subnational region selection for Chinese MNEs. Chinese firms are found to follow other Chinese firms and invest in host subnational regions where previous Chinese investments are concentrated. By taken industry activities into consideration, differences are indicated due to different motivations of Chinese MNEs to invest overseas. Chinese firms that undertake marketing and sales activities in foreign markets tend to invest in subnational region that have Chinese investment agglomeration, while Chinese firms engaged in R&D, production and supporting service show less motivated by previous Chinese investment agglomeration.

Secondly, there is also an obvious agglomeration effect in terms of Chinese OFDI industry selection. Chinese firms are found to prefer to invest in subnational region in which there is already a high degree of industry-specific agglomeration. However, this finding also varies with industry activities that Chinese firms engaged in host regions. Chinese MNEs undertaking R&D activities are more attracted to invest in (host) subnational region that have a high degree of agglomeration of a certain industry, while Chinese MNEs engaged in production activities show less tendency to co-located with

other firms in the same industry. Marketing and support services are not found to be sensitive to the industry-specific agglomeration in host subnational regions.

Thirdly, the testing results show negative tendency for location decision of Chinese state-owned enterprises associated with previous Chinese investment agglomeration. Finally, the high degree of industry-specific agglomeration in home region encourages Chinese MNEs to actively invest in host region characterized by obvious agglomeration in a certain industry.

From the analysis of Chinese OFDI in host subnational region, it is concluded that the agglomeration effect in host regions should be regarded as an important determinant for Chinese MNEs when evaluating host country location or industry environment. Chinese government and its agencies should design the relevant policies to provide some effective guidance for Chinese companies to identify the marketing opportunities as well as help reducing operational uncertainty in host locations, and to assist Chinese firms avoid any irrational follow-up behaviour caused by information asymmetry.

My results imply that Chinese firms are able to take advantage of agglomeration externalities to compensate for their lack of experience about host country regions. When enterprises are making investment decisions, MNE executives need to pay sufficient attention to the overseas Chinese networks. The networks of overseas Chinese can effectively reduce the informal institutional differences, reduce the transaction costs, and smooth the localization process of China's outward investments. Our findings also help managers of MNEs to understand the benefits of co-location condition on value-added activities and subsidiary mandate, and thus should monitor and adjust over time the firm's geographic configuration to enhance operation efficiency and performance of foreign investment.

More relevant policies should be developed to strengthen and facilitate the international cooperation between Chinese entrepreneurs and overseas Chinese communities, which is of great significance to the expansion of Chinese networks and the development of Chinese enterprises' outward investments. Chinese fdi promotion agencies need to realize the potential of their ofdi promotion policy by provided updated knowledge regarding foreign industrial clusters for outward firms.

**Table 5.8 List of Destination subnational administrative region
Western Europe**

Austria	Belgium	Denmark	Finland	France	Germany
Karnten	Brussels-Capital Region	Hovedstaden	Lapland	Auvergne-Rhone-Alpes	Baden-Wurttemberg
Niederosterr eich	Antwerp	Midtjylland	Northern Ostrobothnia	Bourgogne-Franche-Comte	Bayern
Salzburg	East-Flanders	Nordjylland	Pirkanmaa	Bretagne	Berlin
Steiermark	Flemish Brabant	Sjaelland	Uusimaa	Centre-Val de Loire	Brandenburg
Wien	Limburg	Syddanmark		Grand Est	Bremen
	West-Flanders			Hauts-de-France	Hamburg
	Hainaut			Ile-de-France	Hessen
	Liege			Nouvelle-Aquitaine	Niedersachsen
	Namur			Occitanie	Nordrhein-Westfalen
				Pays de la loire	Rheinland-Pfalz
				Provence-Alpes-Cote d'Azur	Saarland
					Sachsen
					Sachsen-Anhalt
					Schleswig-Holstein
					Thuringen
Italy	Netherlands	Spain	Sweden	Switzerland	United Kingdom
Basilicata	Friesland	Andalucia	Jamtland County	Basel-Stadt	East Midlands
Calabria	Gelderland	Castillay Leon	Kalmar County	Bern	Eastern
Lazio	Groningen	Catalonia	Norrboten County	Geneve	Greater London
Liguria	Limburg	Madrid	Skane County	Luzern	North West
Lombardia	Noord-Brabant	Extremadura	Stockholm County	Schaffhausen	South Eastern
Piemonte	Noord-Holland	Galicia	Vastra Gotaland County	Ticino	South Western
Puglia	Overijssel	Murcia		Vaud	West Midlands
Toscana	Zuid-Holland	Navarra		Zug	Yorks&Humberside
Veneto				Zurich	Northern Ireland
					Scotland
					Wales
Central and Eastern Europe					
Czech Republic	Poland	Romania	Russia	Slovakia	
Central Bohemia	Lower Silesian	Bucharest-Ilfov	Central Federal District	Bratislava region	
Hradec Kralove	Lodz	Center	Far Eastern federal District	Presov region	
Karlovy Vary	Lublin	North-East	North Caucasian Federal District	Trencin region	
Moravia-Silesia	Lubusz	North-West	Northwestern Federal District	Trnava region	
Pardubice	Lesser Poland	South-East	Siberian Federal District		
Plzen	Masovian	South-Muntenia	Southern Federal District		
Prague	Opole		Urals Federal District		
South Bohemia	Subcarpathian		Privolzhsky Federal District		
Usti nad Labem	Pomeranian				
	Silesian				
	Swietokrzyskie				
	Greater Poland				
	West Pomeranian				

Asia-Pacific regions

Australia	India	Indonesia	Japan	South Korea	New Zealand
New South Wales	Andhra Pradesh	Banten	Chubu	Gyeonggi	Auckland
Northern Territory	Chattisgarh	Central Java	Hokkaido	North Gyeongsang	Bay of Plenty
Queensland	Gujarat	East Java	Kansai	Incheon	Canterbury
South Australia	Haryana	Jakarta	Kanto	Jeju	Manawatu-Wanganui
Tasmania	Jharkhand	West Java	Kyushu	North Jeolla	Southland
Victoria	Karnataka	East Kalimantan	Tohoku	South Jeolla	Waikato
Western Australia	Madhya Pradesh	South Kalimantan		Seoul	Wellington
	Maharashtra	West Kalimantan			
	Delhi	Bali			
	Punjab	North Maluku			
	Rajasthan	Papua			
	Tamil Nadu	West Papua			
	Telangana	Central Sulawesi			
	Uttar Pradesh	North Sulawesi			
	West Bengal	Southeast Sulawesi			
		South Sulawesi			
		Jambi			
		Lampung			
		North Sumatra			
		Riau			
		South Sumatra			

North America

Canada	United States			
Alberta	Alabama	Georgia	Minnesota	Oklahoma
British Columbia	Arizona	Illinois	Mississippi	Oregon
Manitoba	Arkansas	Indiana	Missouri	Pennsylvania
Ontario	California	Kansas	Nevada	South Carolina
Quebec	Colorado	Kentucky	New Hampshire	Tennessee
Saskatchewan	Columbia, District of	Louisiana	New Jersey	Texas
	Connecticut	Maryland	New York	Virginia
	Delaware	Massachusetts	North Carolina	Washington
	Florida	Michigan	Ohio	West Virginia

Latin America

Brazil	Colombia	Mexico
Alagoas	Antioquia	Baja California
Amazonas	Atlantico	Chihuahua
Bahia	Bogota DC	Ciudad de Mexico
Ceara	Quindio	Coahuila
Espirito Santo		Guanajuato
Goias		Guerrero
Maranhao		Hidalgo
Mato Grosso do Sul		Jalisco
Minas Gerais		Michoacan
Para		Nuevo Leon
Paraiba		Queretaro
Parana		San Luis Potosi
Pernambuco		Sinaloa
Rio de Janeiro		Tamaulipas
Rio Grande do Sul		Tlaxcala
Santa Catarina		Veracruz
Sao Paulo		Yucatan
		Zacatecas

Africa**South Africa**

Eastern Cape
Gauteng
KwaZulu-Natal
Limpopo
Mpumalanga
North West
Northern Cape
Western Cape

Table 5.9 Classification of Industries

High-technology industries	Low-technology industries
Aerospace	Beverage
Automotive Components	Building material
Automotive OEM	Business Service
Biotechnology	Ceramics&glass
Commucations	Coal, Oil & Gas
Chemicals	Food & Tobacco
Business machines & equipment	Metals
Consumer electronics	Minerals
Electronic components	Paper, Printing & Packaging
Engines & Turbines	Plastics
Industrial equipment	Rubber
Medical devices	Textiles
Pharmaceuticals	Transportation
Renewable energy	Warehousing
Semiconductors	Wood products
Software & IT services	

Chapter 6 Conclusion

6.1 Summary of the Findings

In this thesis, I examine the OFDI location issues of Chinese MNEs in two empirical studies.

The first empirical study (Chapter4) examines the determinants of location portfolio of Chinese MNEs, with a focus on the role of home country institutions and sino-foreign joint ventures. The location portfolio is investigated from two dimensions, that is, home-region vs. non home-region orientated and developing- vs. developed-countries oriented. This chapter constructs a panel dataset consisted of 28181 OFDI location by Chinese MNEs in 139 host countries or regions during the period of 1999-2018. The study first investigates the effect of home country institutions from three aspect, state ownership, subnational institutional heterogeneity and institutional change over time. This chapter further examines the role of sino-foreign joint ventures on the location portfolio of Chinese MNEs. In addition to location portfolio, the study also analyzes the effect of institutional change on the probability of new market selections. The explanatory variables that have impact on location portfolio are examined under the fixed effects model. And the variables that related with new market entry are tested under the negative binomial model.

The empirical analysis provides evidence that Chinese firms with a higher level of state ownership tend to adopt non home-regional orientation and developed country orientation in their location portfolio. The research also identifies Chinese firms that originated from stronger institutional regions follow home-region orientation. However, there is no evidence for Chinese firms that originated from stronger institutional regions follow developed country orientation. Institutional instability over time is also found to

have negative effects on non home-region orientation and have positive effects on developed country orientation. And the sino-foreign joint ventures are found to be positively correlated with non home-region orientation and negatively correlated with developed country orientation. On the other hand, there is strong evidence that greater degree of institutional instability in home markets would induce Chinese firms to break existing location portfolio and choose a new country to enter.

Second empirical study (Chapter 5) examines whether Chinese MNEs co-locate with their home country peers, and whether Chinese MNEs are attracted to industry-specific agglomeration in (host) subnational regions. The study tests the expected hypotheses on a sample of Chinese outward investment projects in 250 subnational regions of 29 foreign countries during 2003-2018. This chapter first investigates the probability of Chinese multinational to co-locate with their home country peers in a given (host) subnational region. The chapter then investigates the probability of Chinese multinationals to co-locate with other firms in the same industry in a given (host) subnational region. The study further analyzes whether the effect of country-of-origin agglomeration vary with the different industry activities, including R&D, sales and marketing, production and support and services. And the chapter also analyzes whether the effect of industry-specific agglomeration vary with the different industry activities. Moreover, the study tests how the country-of-origin agglomeration effect varies across state-owned firms and non state-owned firms. Finally, the study investigates whether and how the industry-specific agglomeration effect varies across the degree of home country agglomeration. The two-stage nested logistic regression model is employed to examine the effect of host country characteristics as well as (host) subnational region characteristics.

The empirical analysis provides strong evidence of both country-of-origin agglomeration and industry-specific agglomeration in OFDI location of Chinese MNEs. This chapter also finds that Chinese MNEs engaged in research and development activities have stronger motivation to co-locate with same industry firms, while Chinese multinationals undertaking production activities in host country are discouraged to co-locate with same-industry firms. However, Chinese multinationals undertaking R&D, production, and supporting service are discouraged to co-locate with their home country peers, while Chinese firms engaged in marketing and sales activities tend to co-locate with home country peers. This study finds Chinese state-owned firms are less motivated to co-locate with home country peers. And there is strong evidence that Chinese multinationals originated from cluster are more likely to invest in industrial cluster in host countries.

6.2 Research Contributions

This dissertation makes a number of theoretical and empirical contributions to existing studies.

First, one theoretical contribution of this study is the application of the concept of MNE portfolios. The portfolio is based on a consideration of the full set of subsidiary locations specific to a given MNE and may provide a useful perspective from which to explore the location strategy of MNEs. The portfolio in this study is examined from three dimensions, geographical dispersion (i.e., non-home-region vs. home-region oriented), economic development (i.e., developed- vs. developing country oriented) and industrial clustering (i.e., the tendency of locating investments in country-of-origin clusters and industrial clusters). These dimensions are not only academically useful but also of practical value.

Second, this study extends efforts in recent studies on investigating home country institutions on OFDI strategies. It further broadens the effects of home country institutions to three broad dimensions, include state-ownership, institutional change over time and subnational institutions which I believe are important but hitherto under-researched sources of heterogeneity in the location portfolios of Chinese MNEs. And this study is also among the few attempts to explain the relationship between subnational institutional heterogeneity and the location strategies of Chinese MNEs. Although traditional literature has tended to view locational factors in terms of national borders, more and more scholars have suggested that the country is not always an appropriate unit of analysis (Meyer & Nguyen, 2005), especially for EMNEs.

Third, this study bridges the economic geography and international business studies literature by addressing the location choice of Chinese multinational in (host) subnational regions. Literature on MNEs' OFDI strategies has traditionally taken the host country environment as a whole and rarely paid attention to firms' strategic decisions at the subnational level. Actually, Ofdi location exhibits a hierarchical decision structure, in which subnational regional location following with the selection of a specific host country (Mataloni, 2011; Iammarino & McCann, 2013). When location strategy by MNEs is only analyzed at country level, subnational diversity and contextual differentiation of the specific locality will not be unveiled (McDonald, Buckley, Voss, Cross, & Chen, 2018). This is a important research issue, especially in the context of agglomeration/clustering that display significant heterogeneity of agglomeration economies across different subnational (region) or within country (Lamin & Livanis, 2013; Ma, Tong, & Fitza, 2013). Sub-national level of analysis can confer a significantly closer approximation of clustering/agglomeration distribution within host country (Buegeldijk & Mudambi, 2013; Iammarino & McCann, 2013). This

is significant for my study as it connects with one of my research purposes to investigate the foreign agglomeration/clustering strategy by Chinese firms which is better studied and captured at subnational level of analysis. As noted by Porter and Solvell (1998:440), ‘the growth and performance of firms seems to a considerable extent to be influenced by the conditions in the immediate proximity-in the local cluster’. Local cluster in subnational region of host country has become an important source of competitive advantages for Chinese MNEs, as subsidiaries that are embedded in the local context of subnational agglomeration can share suppliers, workers and institutional support with their nearby firms (Adler & Florida, 2020).

Fourth, the study sheds new light on conversation concerning OFDI agglomeration of Chinese MNEs in a number of ways. This study extends current literatures and improves the understanding of agglomeration economies in the context of IB by including broader agglomeration forces. The international business and regional economic literature has indicated that foreign investors prefer locations with similar firms, particularly with other firms from the same industry, which is encouraged by inter-firm linkages based on industrial- or activity-based agglomeration (Lamin & Livanis, 2013; Head, Ries, & Swenson, 1995; Belderbos & Carree, 2002). In comparison, the relatively small numbers of research that relate clustering/agglomeration externalities with the home country of the foreign investor emphasizing the significance of home-country linkages and ethnic ties in the generation of agglomeration economies (Tan & Meyer, 2011; Stallkamp, Pinkham, Schotter, & Buchel, 2018; Karreman et al., 2017). Foreign agglomeration by home-country linkage is particularly important for emerging market and Chinese MNEs, because most of which usually lack firm specific advantages that are necessary to cope with cultural and institutional distance in target country and subnational region, thus they may depend heavily on overseas migrant

networks for alternative information and knowledge as argued by scholars in current studies (Karreman et al., 2017). In this paper, based on Tan and Meyer (2011), I take into account country-of-origin agglomeration and industry-specific agglomeration simultaneously to further test whether Chinese MNEs can benefit from clustering/agglomeration effects in host subnational region. This responds to the call for greater emphasis is needed to be placed on the different sources through which agglomeration economies occur (Jones,2016). Our final result suggest that country-of-origin agglomeration and industry specific agglomeration indeed determine location strategy of Chinese MNEs, and that their relative impact is dependent on the foreign subsidiaries' industry function and value-added activities.

In addition to the theoretical contributions, this dissertation offers some empirical advancement. Both empirical studies utilize large sample and long time observation period. And in the second empirical study, I employ a nested logit regression model. Compared with conditional logit model, nested logit model can provide a more useful tool to explore the hierarchical structure of location decision by MNEs in host subnational region, and geographic/industrial cluster specifically (Iammarino & McCann, 2013; Disdier & Mayer, 2004). The hierarchical representation of nested logit framework is consistent with the decision making process by Chinese MNEs who looks both at across countries and subnational level within these countries (McDonald et al, 2018; Mataloni, 2011). Using nested logit model not only allows us to test the appropriateness of hierarchical structure of Chinese MNEs location, but also examine the effects of explanatory variables on location choice both at the national level and sub-national region level within these countries.

The study is also useful for providing some practical implications for Chinese managers and policymakers. My results imply that Chinese firms are able to take

advantage of agglomeration externalities to compensate for their lack of experience about host country markets. The availability of ethnic businesses and entrepreneurial networks and strong cultural ties with the home country are likely to present locational advantages. When Chinese enterprises are making investment decisions, MNE executives need to pay sufficient attention to the overseas Chinese networks. The networks of overseas Chinese can effectively alleviate the institutional differences, reduce the transaction costs, and smooth the localization process of China's outward investments.

Chinese companies should take into account not only host country institutional factors but those of the home country when making location choices that ultimately result in their location strategy. There is a danger that Chinese and other emerging market MNEs may internationalize too widely, too soon, especially in developed country markets, in the pursuit of legitimacy. My arguments suggest that not all firms are well-placed to do this. By recognizing their firm-specific disadvantages and institutional constraints in home markets, Chinese MNEs can ensure that their investments are appropriate based on their specific institutional characteristics in terms of, for instance, the extent of state ownership and the extent to which their subnational regions are developed.

More importantly, my study also provides some useful points to policy-makers in China. More relevant policies should be developed to strengthen and facilitate the international cooperation between Chinese entrepreneurs and overseas Chinese communities, which is of great significance to the expansion of Chinese networks and the development of Chinese enterprises' outward investments. And Chinese fdi promotion agencies need to realize the potential of their ofdi promotion policy, for example, providing updated information on host country economic climate for outward

investing firms. Policy-makers are also expected to foster globalization in a measured way recognizing that different location strategies are suited only to certain Chinese MNEs.

6.3 Limitations and Future Research

This research has several limitations concerning the data and measurement of some variables. First, using the cumulative number of subsidiaries to measure location portfolio is not ideal. For example, many studies suggest to measure home-regional orientation with the ratio of regional sales (Banalieva & Dhanaraj, 2013; Rugman & Verbeke, 2004). However, the database limits my analysis and does not enable us to explore regional specification from more practical appeal.

Second, due to the difficulties in data access at the host subnational level, I am not able to investigate the case in most developing and under-developed countries, especially in African countries. The exclusion of these investments might affect the true geographical distribution of Chinese multinationals.

Third, focusing on home country effect, this study does not examine the impact of institutional environment in host countries. Thus, an area that requires further study is the dynamic interplay of home country effects and host country effects in location strategies of Chinese firms. An interesting extension would be to look at the distance between sub-national regions in home (Chinese provinces) and host (foreign countries sub-region). These would be Geographic Distance (not difficult to obtain), Economic Distance (GDP) and perhaps some socio-cultural distance measure if data available.

Fourth, empirical studies have confirmed that there is positive relationship between Chinese migrant communities and location strategy of Chinese firms' investing abroad. For example, based on a large firm-level sample of ofdi by Chinese non-financial investors, Yan, Hong, & Ren (2010) find that high intensity of ethnic Chinese in host

market play a significant role in attracting Chinese outward investors. Erdener and Shapiro (2005) obtain the similar findings and argue that Chinese investors rely heavily on the global ethnic and family networks to deal with environmental uncertainties, thus they are more likely to be attracted by large overseas Chinese community to compensate their late entry weakness in local competition. Therefore, based on Karreman et al. (2017)'s argument, it can be stated that the variables of Chinese migrant communities should be controlled in the econometric model as it has potential effect on Chinese MNEs' location in host market. Given the difficulty in data access, I recognize that this is one of the limitations in my study that future research could investigate this further.

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